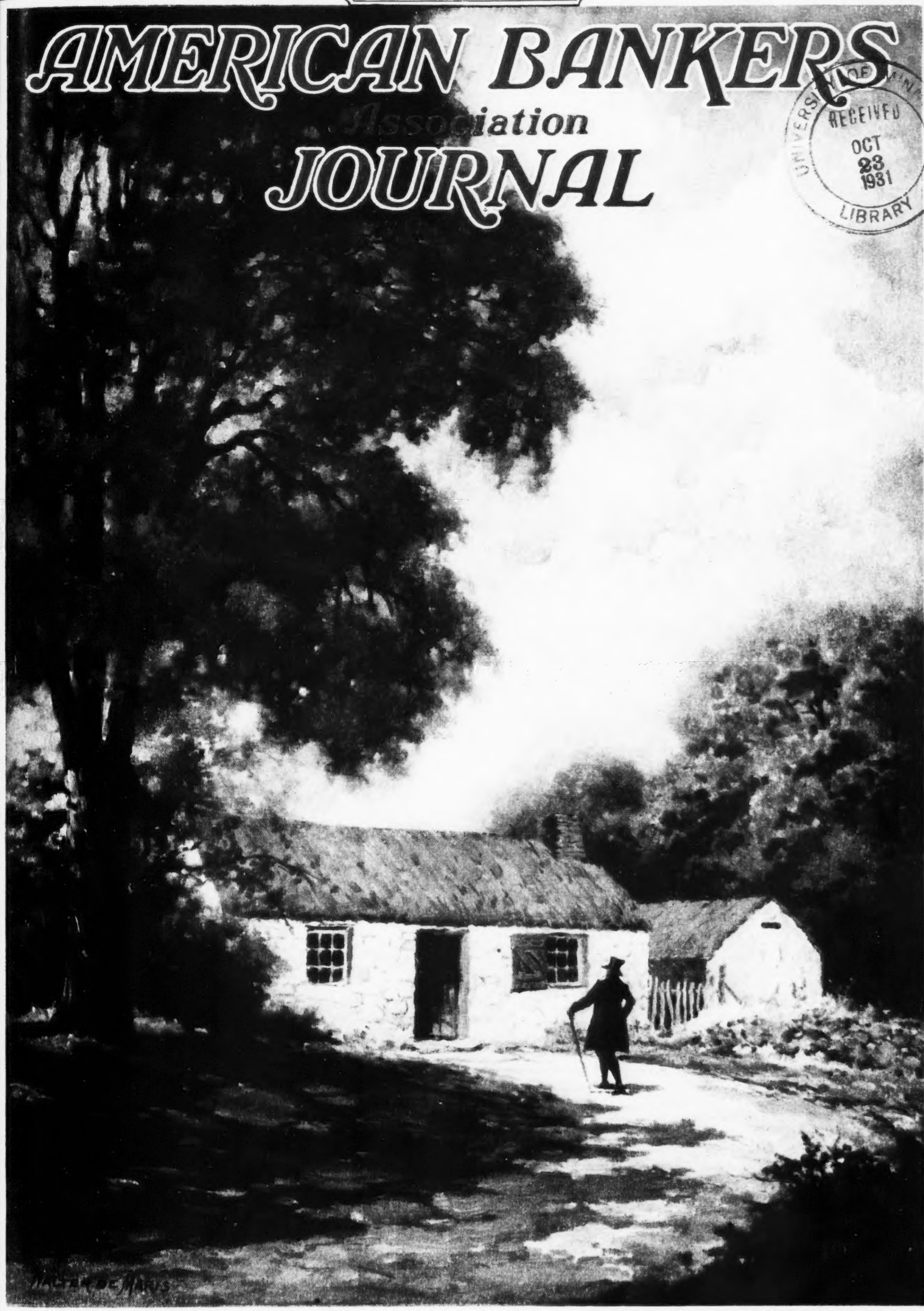
OCTOBER, 1931

AMERICAN BANKERS Association JOURNAL



THE FIRST SAVINGS BANK

Cover Story on Page V

Published in Two Sections—Section One

The First Savings Bank

[THE JOURNAL COVER ILLUSTRATION: FROM A PAINTING BY WALTER DE MARIS]

THAT there is no limit to the value of a good thought can be illustrated in no better way than by consideration of the results that have flowed from the good thought which Rev. Henry Duncan had for the betterment of the people of his community.

He was living in the village of Ruthwell, Dumfriesshire, in the lowlands of Scotland in 1810 when and where the people had hard enough time getting along because prices were up and wages were down—if indeed, the latter had ever been up worth mentioning.

Though it would appear that the people had little to save and were in no need of advice to be thrifty since dire necessity commanded a frugality that might be surprising in other times and other places Mr. Duncan nevertheless thought that, poor as they were, there was something going to waste which might be saved, and that he could show them how to help themselves.

Probably the biggest factor making for the success of his then novel plan was not the visible amount that could be saved but the inherent instinct of thrift in the race. So he began in the little cottage, that our artist has painted for this month's cover illustration.

The philanthropic flavor of Mr. Duncan's effort is suggested by the condition that the bank, small as it was, did not accept all comers out of hand. Before an account was opened there was an investigation of the character of the applicant, and strange to reflect upon in these times, the governing authority fixed different rates of interest for different people, not according to the amount of money they placed on deposit or the period for which they left it with the bank, but according to their aims and objects in life. He who saved against the coming of the rainy day, or the coming of old age was just an "ordinary" depositor, whereas the man who drew out his money after three years for the purpose of marrying stood in a favored class. For to him the rate of interest paid was said to be five per cent, but if he drew out his money and chose to remain single he automatically stepped down into a lower class and received but four per cent.

WHILE the operation of savings institutions confers benefits upon society that neither Mr. Duncan nor his famous friend Thomas Carlyle could have foreseen, these institutions have still within them men who acting in extra-parochial capacities often render philanthropic services of a magnitude that surely would have gladdened the heart of this early apostle of thrift.

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A.B.A.J.-10

This Month's Journal *and* Your Own Bank

THIS issue of the JOURNAL contains a report of the American Bankers Association Convention at Atlantic City. It reflects accurately what is perhaps the best thought of the nation on the steps needed to restore confidence, on the problems of small banks and large banks, country and city banks, the relationship between business and banking, the outlook here and abroad and the future of the trust business.

ROME C. STEPHENSON summarizes his year as President of the American Bankers Association. He traveled throughout the country and met bankers under conditions which revealed their courage and confidence. He says that he has come out of "this year of somber experiences," not a pessimist but an optimist and with strong feelings of pride in bankers for the manner in which they have met their task under conditions of great stress. He believes that the year has brought new honor to banking traditions and the banking profession. Mr. Stephenson discusses the question of thrift versus spending and reaches the conclusion that a resumption of "normal spending" on the part of those who are able to do so, would prove a tonic to trade.

HARRY L. RUSSELL diagnosed the depression as a case of complete unbalance between production and demand. He believes that the chief problem of agriculture and business generally can be solved only by a readjustment of supply to demand. He sees little merit in efforts to reduce acreage by governmental fiat because it is next to impossible to obtain united action in any one country and much more difficult to achieve any sort of cooperation among several producing countries. Any attempt by governmental intervention to stimulate prices or maintain them, are expedients giving only temporary relief and not permanent cure.

A. C. ROBINSON of Pittsburgh spoke in defense of thrift, with particular emphasis on its moral aspects. He believes that the will to save is more securely founded on morality than on expediency and self interest, because the fundamental purpose of saving is to provide for one's welfare and happiness, both of which are moral issues. The bankers of the United States, he said, as custodians of 53,000,000 savings accounts, owe savings depositors more than safety and service. "We owe to them," he said, "the strength of our encouragement that they have been profoundly right in their desire to accumulate. It is our duty to safeguard the owners of those accounts against the blandishments of false economic doctrines which are seeking to sap the accumulations which have made America a successful nation."

RICHARD H. GRANT describes how a great corporation has undertaken to teach its retail dealers to reduce costs, maintain their credit standing and earn larger profits. He regards the effort to strengthen the financial condition of the men in actual contact with the public, as a matter of importance equal to the general selling program. A number of reasons underlie the plan, as Mr. Grant outlines it, one of which is of direct interest to bankers, namely, the purpose of changing retailers into better credit risks. Proof that the idea is working itself out advantageously lies in the fact that it costs the corporation a considerable sum, yet, in the face of an unfavorable business year, there is no intention of economizing on this expenditure.

FREDERICK H. ECKER, drawing upon his own experience, demonstrates that an investment program resting on sound principles, which is followed unswervingly over a period of years, can insure a surprising degree of stability. He cites the case of the Metropolitan Life Insurance Company, which on Dec. 31, 1929, had in its portfolio 1300 separate items of bonds, preferred and guaranteed stocks, the total market value of which was approximately $1,200,000,000. On June 30, 1931, he said, the value of these assets, including the proceeds of sales and maturities taking place in the meantime, was $1,213,000,000, or a profit of $13,000,000. He discloses the method of selection which made this record possible and discusses specifically the situation affecting railroads and real estate.

EDMUND PLATT, writing under the title "Federal Reserve Bank Credits to Germany and England," contributes to this month's JOURNAL an important chapter to the growing volume of discussion concerning the relationship which exists between the Federal Reserve System and foreign central banks. He explains how, under the terms of the Federal Reserve Act, a reserve bank can extend credits to foreign countries, with particular reference to recent operations involving the Reichsbank and the Bank of England. He tells how such credits have been extended, why and with what results. He says that the effect on the reserve position of the United States is infinitesimal and difficult to trace in Federal reserve bank statements. He believes that America's own interests require cooperation between the Federal Reserve System and foreign central banks whenever joint action is necessary to maintain currency stability.

FRED B. BRADY offers a plan, already tested and proved adequate, for inaugurating service charges on a basis that is fair to each customer because it is measured by the actual amount of service rendered. Accompanying this valuable study are two tables—one containing a simple method for analyzing an account and the other showing how to compute the time required for handling various items. There is also a chart illustrating effectively the distribution of costs among the various departments of the bank. The banker, says the writer, who buys his funds right, handles his overhead expenses right and sells his service and credits right, will make money. His view is that the service charge should not be a means of increasing revenues, but merely a way to make unprofitable accounts profitable.

JAMES C. STONE tells what the Agricultural Marketing Act and the Federal Farm Board are and, more important, what they are not. He believes that far too much has been expected of the Farm Board and that many groups who complain most vigorously against the Board as an example of Government in business, would be perfectly willing for the Government to help their own

particular groups. The Board, declares Mr. Stone, has avoided competition with local banks in the matter of extending credit to farmers wherever the local banking facilities have been adequate. He explains the various actions taken by the Board and answers specific criticisms of the Board's policies. Bankers who have preserved an open mind on the work of this much discussed agency, and who are intent on understanding its purposes, should not fail to give this paper special study.

FRED W. ELLSWORTH summarizes the progress made during the past year by the Bank Management Commission and outlines quite a full program of work still to be done. He says that unscientific methods of running a bank are definitely a thing of the past and cites several instances of old-fashioned management, disclosing by contrast the transformation that has come over the profession in the past few years. The change is particularly striking since the Bank Management Commission launched its epochal labors and the case for continuing and redoubling these efforts has never been more ably or forcefully presented.

EUGENE M. STEVENS, under the title, "Banking's Best Course Hereafter," gives bankers everywhere the benefits of financial experience covering a wide span of years. Mr. Stevens' views have in them a reassuring quality which springs from the writer's knowledge that pessimism concerning the United States has never been warranted. One of the reasons business fluctuates between the extremes of inflation and deflation is probably the arrival constantly of new generations having no background of experience to tell them what to do and where to stop, and no desire to take advice from those who have seen many "new eras" come and go. These, together with the vast numbers who do not profit by experience, regard each period of prosperity and each slump as something which never happened before. "In the process of our gradual return to a saner state of mind," says Mr. Stevens, "there has been forced upon us the necessity of facing facts squarely and of engaging in some fundamental thinking. Not for many years has the average man given so much thoughtful study, not only to his own problems, but to those of society as a whole. If it is a time for serious thinking, it is a time for plain speaking as well."

FRED I. KENT says that the dole, in any form, tends to pauperize a nation. England and Germany, he says, launched plans for helping workers during temporary periods of idleness, only to find that the system, once started, was hard to stop. Economic currents are set up which have a tendency to smother industry, increase taxation, cause more unemployment, and, in turn, add constantly to the burden of the dole.

AMERICAN BANKERS ASSOCIATION JOURNAL

The 57th Annual Convention

American Bankers Association Endorsed the Hoover Credit Plan as Soon as It Was Announced. Constructive Program for the Betterment of Business. Two Outstanding Addresses on the Farm Problem. Changes in the Constitution. New Officers.

THE 57th Annual Convention of the American Bankers Association in Atlantic City worked for the improvement of bank service and the revival of business confidence. The announcement of President Hoover's $500,000,000 emergency credit corporation and its endorsement by the Convention were the first steps in a plan which bankers hope will turn the country back toward self-confidence, normal trade activity and faith in the future.

The purpose of the corporation is to provide rediscount facilities for sound collateral which is not now eligible for rediscount with the Federal reserve banks. The new organization, to be known as the National Credit Corporation, will offer for subscription gold notes in an aggregate principal amount not to exceed $1,000,000,000. All banks and trust companies are being asked to subscribe a sum equal to 2 per cent of their net time and demand deposits, but in no case more than 10 per cent of their capital and surplus. It is estimated that the first installment will be 20 per cent of the total subscription.

Clearing Houses Approve

THE New York and Chicago Clearing houses have given their approval to the project and the response from banks throughout the country has been wholly favorable. The corporation will be independent of the Federal Reserve System and privately administered by a board of directors consisting of one director from each of the twelve Federal reserve districts. President Hoover's statement announcing the action, which is published elsewhere in this issue, was presented to the Convention by Francis H. Sisson with this comment:

"I believe that the plan called for by this statement is based, as it manifestly seems to be, on the considered views and judgment of the nation's banking and business leaders, and that it calls for our approval and for the support of the whole banking profession. I, therefore, move that this Association pledge itself to the task of aiding in the further development and carrying out of the President's plans, as outlined in his proclamation, and that our approval be referred in whatever form seems best to our resolutions committee for the preparation of a suitable expression of our cordial endorsement."

The program of the general sessions of the Convention was constructive and its general effect was to remind anyone who may have forgotten, that the United States is strong financially and sound economically. There were two last minute changes in the list of speakers announced prior to the Convention. Ogden L. Mills, Undersecretary of the United States Treasury, who was to have addressed the third session, was detained in Washington; James C. Stone, chairman of the Federal Farm Board, spoke before the second session on the work of the board. He said that the present distressing conditions existing in agriculture had their beginning in the war and had been aggravated by adverse factors in various countries of the world. "The Farm Board," said Mr. Stone, "single-handed, cannot correct the world economic depression." This address is published in another part of the JOURNAL.

President Haas

HARRY J. HAAS, vice-president of the First National Bank, Philadelphia, Pa., and newly elected President of the American Bankers Association, predicted an active year with the Association assuming new responsibility and new leadership. He recalled the long record of cooperation between the bankers of Pennsylvania and the American Bankers' Association. Accepting the office of President, he said:

"If you will pardon a personal reference, I would like to read into the records that it has been twenty-seven years since I attended my first Convention in New York in 1904. Since that time I have had the pleasure of attending twenty-three consecutive Conventions. For the past twelve years I have been either a member of the Administrative Committee, Executive Council, the Executive Committee or an officer of the National Bank Division. During all these years I have gained some little knowledge of

HARRY J. HAAS

Vice-President, First National Bank, Philadelphia; Incoming President American Bankers Association

the traditions of the Association and I assure you that I shall endeavor to abide by these traditions.

"The Association does not drift. It has very definite, concrete ideals which it endeavors to carry on through its various Committees and Commissions. I shall not attempt to outline the work accomplished by these Committees and Commissions for the general good of the bankers of America—such as keeping in touch with laws under which we operate, protecting members from criminals, the enormous savings to banks through fair and equal taxation and insurance, the promotion of proper bank education and bank management, and the services rendered agriculture and other business.

Committee Selections

"THE Association has permanent Council committees to which must be appointed none but members of the Council. It has also other committees to which may be appointed persons who are not members of the Council. It is my thought that members of the Council are all outstanding men in their respective states and were selected by those who know them best to represent their state in the affairs of the American Bankers Association, so that in the selection of committees for the coming year I have allocated to some committee, whether Council committee or non-Council committee, every member of the Council certified to date, in preference to the appointment of non-members of the Council. I might also mention that this plan carries with it a savings to the Association of a material amount. There are instances, however, where it would be a distinct loss to the Association to lose the services of a number of men on non-Council committees, who are not members of the Council. These men have all agreed to serve for the ensuing year.

"This great organization could not function efficiently with a complete change in personnel each year, so the Constitution and By-Laws have provided for a continuing organization familiar with its affairs. May I pay tribute to those who have been workers in the ranks? We have a number of men who, year after year, have voluntarily and without compensation given liberally of their time and effort to carry on the great work of the Association. I shall not mention them individually. Their names are synonymous with the Association.

"We have had many deflections from our membership during the past two years through mergers and otherwise, and with the same membership fees we may expect a considerable decrease in revenue from this source. Your finance committee has had this in mind. In arranging the budget for the coming year we have had to make small reductions all along the line so that the curtailment should not fall heavily on any one department, and not impair the efficiency of any Division, Section, Committee or Commission. Those in charge of expenditures will bear this in mind.

Like a Corporation

"I WANT to look upon the Association as a large business corporation—the members as the stockholders, the Executive Council as the board of directors, the Administrative Committee as the executive committee and the officers as the executive staff. Many important problems will come before the bankers during the coming year and I urge each one, as a stockholder, to lend a willing hand whenever the opportunity offers.

"We are in a changing world, with many new financial problems for which we have no precedent, and many old problems which have so changed as to be unrecognizable. American bankers have been called already into world affairs to blaze new trails of unknown finance. We may expect these calls to be more numerous in the future than they have been in the past. We are the world's financial leader and we must accept the responsibility which goes with it.

"This is no time to extol the virtues or condemn the faults of any classification of banks. All have had their grief and in my humble opinion it would be a mistake to set class against class, adding confusion to the already bewildered public.

"In the medical profession they have facilities for locating some diseases, even before the patient is aware of their existence, or before illness overtakes them. In the banking business we have, through our national, state and clearinghouse examinations, the facilities for determining unsound banking practices, whether through lack of knowledge or otherwise, and where these practices persist they can be cured if the cause is removed before the condition progresses too far.

"Let us look to the future with confidence. Every one of us has experienced a great sorrow sometime during his life; perhaps so great that we, at the time, felt that we could never overcome it, but time is the great healer and eventually we have come out of it. It is true that the scars are there but the wounds have healed. Memory is the only friend that grief can call its own. As it is with individuals, so it is with nations which are, after all, only a large number of individuals of different nationalities.

"Our nation has had much sorrow in the 155 years of its existence. We have passed through the major depressions of 1837, 1857, 1873, 1879, 1884, 1893, 1896, 1907, 1914 and 1921 to the present. I venture to say that in each of these periods there were those who had doubts of the future just as we have them today. But what happened after each depression? Our country recovered and was better and stronger than ever. Its people were introduced to improved modes of living until today, notwithstanding the depression, we are reputed to live on the highest plane of material welfare of any nation in the world. Should we not judge the future by past experience?

Reasons for Confidence

"SURELY our people are better prepared financially and intellectually to cope with even greater problems than they have in the past, so why not look to the future confident that fundamental, social, financial and economic problems will be adjusted satisfactorily? Confidence is not established by any one thing, but by an accumulation of things. If we can get confidence started on its way, gathering a little here and there, it will accelerate its speed as it goes along. This is not the work of any one man to perform, but it is the cumulative effort of each and every one of us. What we are in the future is not the result of what we have done on any one day but the result of all that we have done during our lives.

"The American Bankers Association is endeavoring to do its part. Individually our efforts may not count for much, but they are part of the whole plan and, taken in the aggregate, they amount to the sum total of all our efforts. I bespeak from all of you your hearty cooperation."

Mr. Haas praised the work accomplished by Rome C. Stephenson as President of the Association, and expressed the hope that the Association would not expect its new President to equal Mr. Stephenson's record of travel and effort to advance the interests of the Association. "I realize and appreciate," he concluded, "that the office of President carries with it duties which require much time and effort. One should not accept the honor without assuming the responsibilities. The joy of working with you, the renewal of old friendships, the making of new friends, shall more than compensate me for all my effort."

At the opening session, R. S. Hecht, president of the Hibernia Bank & Trust Company, New Orleans, reported as Chairman of the Economic Policy Commission, and Richard H.

Grant, vice-president of the General Motors Corporation, spoke on business management in retail activities. Both of these papers appear elsewhere in the JOURNAL as does also the address of Rome C. Stephenson as retiring President of the Association.

The following amendments to the Constitution, first having been considered by the Administrative Committee and recommended by it to the Executive Council, were in turn recommended by the Council to the Convention for its consideration and adopted:

1. Amend Section 1 of Article X to read as follows:

Section. 1. Divisions of the Association composed of different business classes of membership are hereby created as follows:

(a) A Trust Division whose scope shall embrace all trust matters of interest to trust companies and banks.

(b) A Savings Division whose scope shall embrace all matters relating to institutions receiving savings deposits.

(c) A National Bank Division whose scope shall embrace all matters of interest to national banks.

(d) A State Bank Division whose scope shall embrace all matters of interest to state banks.

Members of the Association may enroll as regular members of but one Division in which they shall have full powers and privileges of membership; they may also enroll as associate members of any other Division or Divisions, but without power to vote or hold office in such other Division or Divisions.

Provided that nothing herein shall prevent an individual regular member or an officer, director, trustee, manager or partner of a regular member of any Division from being eligible to appointment by any other Division upon any committee of such other Division other than the Executive Committee thereof.

2. Amend the second paragraph of Article VIII under the sub-title "Members" by striking out the word "Bank" between the words "Savings" and "Division" and by striking out the word "Company" between the words "Trust" and "Division."

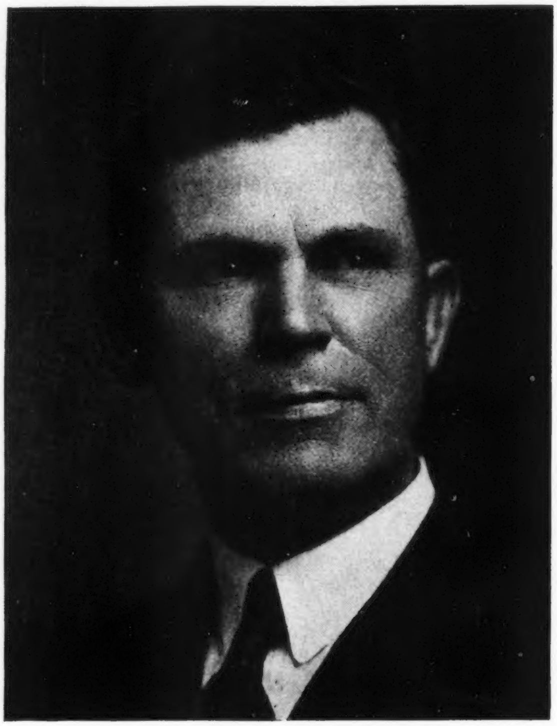
3. Amend Article VIII by striking out the second sentence under this subtitle, "Officers and Employees," which reads:

"The Committee (meaning the Administrative Committee) shall appoint a Secretary of the Association who shall be a subordinate of the Executive Manager and an Assistant Treasurer, and may in its discretion appoint one person to serve in both capacities. The functions and duties of the Secretary and Assistant Treasurer shall be prescribed by by-law."

Consonant with the above also amend the sentence next succeeding by striking out the word "other" between the words "of" and "subordinate officers and employees."

Farm Problems

HARRY L. RUSSELL, chairman of the Advisory Council, Agricultural Commission, American Bankers Association and former head of the agricultural college, University of Wisconsin, spoke on the problems which afflict agriculture and the difficulties which stand in the way of a solution. His address appears elsewhere in this issue. Chairman Stone of the Farm Board followed Dean Russell, and their addresses, considered together, furnished an excellent background for understanding the needs of the basic industry of agriculture.



P. D. Houston,

Chairman of the Board, American National Bank, Nashville, Tenn., Incoming Treasurer, American Bankers Association

Colonel William G. Edens, vice-president of the Central Trust Company, Chicago, and chairman of the Nominating Committee, submitted a report recommending as officers of the Association for the coming year, Harry J. Haas, vice-president of the First National Bank, Philadelphia, for president; Francis H. Sisson, vice-president of the Guaranty Trust Company, New York, for First Vice-President; and Francis Marion Law, president of the First National Bank, Houston, Texas, for Second Vice-President. This report was approved by unanimous vote.

Tribute to Morrow

AT President Stephenson's call, the Convention stood in silent tribute to the late Senator Dwight W. Morrow, whose death had just been announced. A statement by Mr. Stephenson said in part: "Senator Morrow was one of the great bankers of America and through his unselfish devotion to the ideals of his country, he had made a valuable contribution to our standing and prestige throughout the world by the admirable course he pursued as United States minister to Mexico. Senator Morrow was in the prime of life and had a brilliant future facing him as a public officer whereby he would have been enabled to make further contribution to the progress of his country. He had the respect and confidence of the public and there was universal belief in his ability, honor, integrity and sincerity."

At the third session Fred I. Kent, Chairman of the Commerce and Marine Commission and director of the Bankers Trust Company, New York, took the place on the program left vacant by the inability of Mr. Mills to be present. Mr. Kent unfolded a dramatic picture of the world's economic quandary, of mistakes made and obvious remedies passed by, of nations pulled into the mire by extravagance and false political doctrines; and running through his facts and figures was the thought that a little common sense would help a great deal. His address, as it relates to the evils of the dole, appears elsewhere in the JOURNAL.

Mr. Sisson spoke briefly accepting the office of First Vice-President. "Vice-Presidents come," he said, "and Vice-Presidents go, but the American Bankers Association goes on forever, and the splendid leadership which it has is very well expressed in the character of the organization. Mr. Stephenson has given us a very different kind of leadership, a very human, a very appealing and a very under-

(*Continued on page* 301)

The Next Time We Prosper

By ROME C. STEPHENSON
Vice-President, St. Joseph County Savings Bank, South Bend, Ind., and Retiring President, American Bankers Association

One Way to Plan the Economic Welfare of the Country and Maintain Business Health Is to Instruct the Public in Sound Personal Financial Habits. Banks Should Undertake This Task as a Function Commensurate with the Acquisition of New Business.

IT has been my task and my pleasure during the year of my office as President of the American Bankers Association to travel in the banking field from one end of the nation to the other. The entire year has been one of practically unbroken financial reaction and business depression. I have therefore seen the banker under unusual conditions. Indeed, I sincerely hope that none of my successors will have the opportunity that I have had to see so many of his brother bankers going through all of the purgatorial trials on the economic calendar.

As for my immediate successor, I can confidently predict that he will not duplicate my experience, for I am sure that before his term of office will have run its course we shall have a very different state of affairs in the nation than has existed during the past year. And to this I add the fervent prayer that at no future period in the nation's history will the same weight of business cares rest on the shoulders of the banker and the business man as during the past year.

A Severe Test

FOR my own part, however, I must simply write into the record my impressions of the banker under conditions that have tried his mettle as has no previous period in our business history. I have met the banker under these conditions in his bank. I have met him in his home. I have met with him as a body in his association meetings. I have seen him struggling with situations created in his bank by reason of the fact that many of his customers were unable to meet their obligations.

I have seen him in other cases where the business of his community has been virtually wiped out by the withering breath of a drought, or by the unfortunate state of the agricultural pursuits or industrial enterprises upon which the economic prosperity of his particular community rested. I have seen him in communities whose vitality had been sapped by the shift of business from the country to the cities. I have seen him confronted with the technical condition of a depreciated investment account that was built in all good faith and all good judgment upon the best intrinsic security values the nation had to offer.

I have seen him surrounded in his community by an atmosphere of unwarranted public distrust based on nothing more tangible than the malicious gossip of rumor mongers, or on the idle repetition of a smart remark about a bank peddled among the people by milkmen and others with no conception of the seriousness of what they were doing, or even on nothing but the excitable misunderstanding of the banking business by an overwrought foreign depositor.

Heavy Responsibilities

AND I have seen him, too, facing in his bank lobby anxious or angry or panic stricken mobs of customers whose unreasoned hysteria was destroying not only the strong financial structure that he had built up through years of honest and conscientious endeavor and service to his city, but also destroying the security of their own deposits and the business welfare of their own community.

It has been a year of drama and soul testing days and nights for the banker from one end of the country to the other. For into the banks have flowed the products and final results of all the business troubles and mistakes, of inflated hopes and deflated ambitions, of speculative adventures and of the more sober business enterprises of all classes of our citizens and all kinds of industrial and commercial endeavors. Into the banks has flowed the sum total of these economic troubles and it is there in many cases that the final reckoning had to be met, even though the banker was little responsible for original causes.

And yet, although such a picture as this makes up a large part of my experiences in traveling about among the banks from one end of the country to the other during the past year, I have come out of it with a renewed faith in the strength of our banking structure and our banking situation, and a renewed faith particularly in the spirit and courage of the men in the banks that has enabled them to rise unconquered over difficulties such as men never had to face before, or to accept with fortitude misfortunes that were beyond human power to prevent.

When we reflect that the entire human economic structure has been brought to the verge of ruin under the difficulties that have swept over not only the nation but the entire world, and that the results of events of this kind react with particular directness upon the stability of our banks and yet how few have succumbed, we may well renew our confidence in the banks of America. When we think also of how many of our bankers have stood up under the stress and storms of these times and how relatively few of them have been proved wanting in the series of crises that have assailed them, we may well feel a sincere pride in our fellow bankers.

Faith Renewed

AND so I come out of this year of somber experiences not as a pessimist, but as an optimist—as one with a renewed faith and confidence in the spirit of his fellow men under overwhelming difficulties. And particularly do I come out of this year as a banker who is proud of his fellow bankers for the undaunted way in which they have met their part of the great test through which the times have put the nation. I believe that this year has brought new honor to our banking traditions and our banking profession and has won for the banker new title to the faith and trust of all classes of his fellow citizens.

It is not my intention to engage in

any way in an effort to offer solutions for the great problems that occupy the forefront in the public discussions of the hour, but there are a few questions now confronting the country to which I would briefly direct your attention.

Saving and Spending

ONE question of particular interest to bankers about which there seems to be an unnecessary amount of confusion is the relationship between saving and spending. As to the proposition that our people should spend instead of saving, I think we need waste very little time. As to the proposition, however, that the people should save and spend, I think there is something to be said.

We hear much of future economic planning to save the nation from a repetition of business depressions and disaster and to promote a more stable cycle of activity. I know of no better plan to suggest for future better times than that every wage earner, every family and every business throughout the country lay down as soon as they are able a program of proper saving as the foundation of their financial policy. I know of no better plan than this to build for the nation as a whole a stronger economic situation—that is, through a common structure of individual working, earning and saving. And I know of no better plan to revive activity in a depression than to spend a proper volume of these savings to keep the momentum of business going. But unless there are savings in prosperity there cannot be spending during depression.

Those who practiced this plan during the past period of prosperity have a security and a protection against present adversity that could be provided in no other way. Those who did not are the ones who now are most dependent upon others. The great masses of our people create and are entitled to the major portion of the nation's wealth, but unless they save a goodly part of their earnings above what the daily requirements of life compel them to spend they cannot make permanent and secure for themselves these great fruits of their economic endeavors.

Still Money to Spend

IF there had been more preaching of this doctrine when it was more feasible to put it into effect than it is now there would be less depression and less financial insecurity today. However, while there should have been more emphasis on savings during prosperity, at least a slight measure of the emphasis today might properly be the other way, at least to the extent that those who can safely do so may well increase their spending instead of overdoing their saving. While millions of our people have suffered the loss of their jobs or an impairment in wages through cuts and part-time work, and while many business men have seen their earnings fail, still there are many millions who have not suffered seriously in respect to the purchasing power of their incomes. If we listened to all the scare stories of the day, one might get the impression that everybody was out of a job and nobody's business was earning anything. The depression has got on everyone's nerves so much that there is an epidemic of pocketbook paralysis. Many of our people are economizing extravagantly and millions who are perfectly able to continue a normal program of prudent buying are curtailing their expenditures beyond reason.

Unreasonable Curtailment

OF course, the sum total of this unreasonable curtailment of spending is an economic influence contributing to the stagnation of trade. By the opposite token, I believe the resumption of normal spending on the part of those who are able to do so would be an important tonic toward the stimulation of trade. I do not mean by this that we should have indiscriminate spending merely for the sake of spending, but the very motive power of our economic life is the interchange of goods, and unless we have that we cannot have prosperity.

I strongly believe that we are at that point in the depression stage of the business cycle that any sound stimulating influence will start a real movement in the direction of a return toward prosperity. So much of the weakness of the old state of affairs has been liquidated, so many maladjustments corrected and such large volumes of our consumers' goods have been used up or worn out that the pressure of necessitous purchases must sooner or later be felt. When that time definitely comes we may consider it the first impulse of a new era of normal business.

Looking toward the longer future, I am convinced that the most constructive action that can be taken toward bringing about greater stability in our business life is the development of a more balanced attitude in the minds of all of our people in regard to the right relationship between saving and spending. The time really to save is during a period of steady earnings and high prices, and the real time to spend is during a period of stagnant trade and low prices. There is more practical workable economics in the sentence: Save during prosperity so as to be able to spend during depression, than in a whole library full of charts and tables and books on political economy.

Spending extravagantly in a period of high prices merely means to drive prices higher and to get less and less for your money, and the inevitable result is enforced curtailment of buying, a recession of trade and a stagnation of industry. This results in a revision of prices downward to a proper relationship with real value, and those who were wise and saved when prices and incomes were high are in a position to spend and reap the full intrinsic purchasing power of their earnings in a period like the present when prices are lower.

I do not believe that it is an impossible dream to bring about an era of more intelligent spending and economic planning on the part of the masses of our people. It is not impossible to change the habits of the population. We have done it in many other lines. We have improved the habits and promoted the health of the nation in many ways by consistent programs of advertising and education that have brought about better hygienic understanding and practices.

The medical profession has virtually banished the scourge of some diseases by persistent, intelligent campaigns of preventive sanitary measures and inoculations, requiring new understandings, new attitudes among many millions of our people.

A large part of the evolution of public health improvement has naturally developed also through the intelligent advertising of many products that have to do with bodily care. I refer to the manufacturers and distributers of such things as more healthful shoes, more effective toothbrushes, food products with more wholesome values of nutrition and countless other practical ideas that have become commonplaces of our daily business life—and that have become a part, too, of the very texture of the personal habits and health of great masses of our people.

Financial Health

IF it has been good advertising and good business for so many of our national producers to spend millions of dollars thus to inculcate new habits of personal hygiene and personal care, is it not good business and good advertising for our banking interests to lay similar stress during the next period of prosperity upon better finan-

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Better Retail Credit Risks

By RICHARD H. GRANT
Vice-President, General Motors Corporation

Banks Have a Direct Interest in Efforts by Large Industrial Producers to Help Their Dealers Make Money. Good Habit for Retailers to Cultivate Is a Monthly or Quarterly Trip to Their Bank with a Complete Statement Showing Business Condition.

OUR corporation will be employing in November, December, January and February at least as many, and probably more men than we did this past year. This is the time of year when we set up sales indices for the coming year. These are of extreme importance because upon their accuracy depends whether or not we set our budgets properly. We make intensive studies, in addition to using our observation and common sense in arriving at these indices.

Method of Computation

WE are in the habit of looking at an automobile not as an automobile but as six years of transportation, and figuring the automobile produced as six years of transportation and by following up records of production yearly, we get a graph which indicates what a normal inventory of transportation in the hands of American people ought to be.

Then as production takes place, we indicate whether there are more miles of transportation in the hands of the people than might be expected, or less. It is significant that at the present time, according to our figuring, there are about 12,000,000 years less of transportation in this inventory at the moment than has been considered normal since 1925.

Consequently, if we retained the same purchasing power in the country, it is quite evident that on the first turn of business, there would be a rush to replace that inventory. In developing that graph it has come out very strongly that three years after a big automobile year there is another big one. The biggest automobile year we ever had was in 1929, when we produced for American consumption 4,100,000 cars. This year we will produce somewhere between 1,700,000 and 1,800,000 cars as contrasted with 4,100,000 in 1929.

If we had a normal economic condition we could be sure that as 1932 is three years after 1929, we would do a tremendous business because the third year is the time when the bulk of replacing takes place.

Now there are factors at work that make it uncertain how big the year will be. For instance, money is being hoarded from lack of confidence. That takes away some purchasing power that we would otherwise have. Family budgets are being cut on account of a change in income condition which again means purchasing power for automobiles, like a good many other things, will be knocked down. Therefore, we have to measure in setting our indices for our various divisions, what statistically will be a big year against the practical considerations of reduced expenditures, and come to a determination as to how big the year will be under these circumstances. Regardless of how many automobiles we sell in 1932, we are storing up a big business for the future. We will sell less automobiles in 1931 than will go to the scrap-heap.

Demand to Increase

THERE was more gasoline used in 1930 when we sold approaching 2,500,000 passenger cars than in 1929 when we sold 4,100,000. More surprising than that, with 12,000,000 car years out of this inventory we used 9 per cent more gasoline up to Aug. 1, 1931, than we did in 1930. Therefore, with fewer automobiles, they must be running them faster and longer, to consume that additional gasoline, which means we have some 22,000,000 people working to increase automobile demand when we get a return to economic soundness.

As far as the conduct of our business goes in the first half of 1932, we have to draw the conclusion from all the figures that we will have to put the indices for the first half of 1932 somewhat higher than the actualities of 1931. We are willing to put our advertising budget and our selling expenses on that kind of indices and have enough confidence to carry on for the first half year.

If we have guessed wrong, we will have to revise in the second half year, but we cannot figure but that the economics are such, the obsolescence so great, and we have sunk so low in this year's sales, that the first half year of 1932 must necessarily be better than the first half of 1931. It is our intention, in attempting to make that come true, to watch our dealers' financial condition carefully, and, on the other hand, drive for sales by legitimate means just as hard as we ever drove at any time in our history.

Credit Consideration

I HOPE over the next two or three years to have a very decided influence on the bankers of the country in getting them to give intelligent consideration to those dealers who are entitled to credit. I find growing up here and there that type of thinking that puts a whole class of men in one category, and I do not believe that is the right way to look at things.

I have made a survey of the activities that are being carried on in the country in the direction of giving to retailers a better opportunity to run their businesses and make money and I am frank to say that I do not think that any activities at the moment amount to very much. From long experience in handling retailers, I do not think one can get results out of merely sending them a pamphlet or a set of forms or something of that kind. It is more difficult than that.

In our own case we do not want to go into the retail automobile business, consequently, we know that if we are going to stay out of it, the men that are in the business must make money. Otherwise we would have to go into it whether we wanted to or not.

The bankers of the country have given to automobile distribution a wonderful financial aid, looking back over the situation. We want that to continue, but we know that if we do not see to it that those dealers are

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FRANCIS H. SISSON

Vice-President, Guaranty Trust Company, New York; Incoming First Vice-President American Bankers Association

Agriculture's Chronic Surplus

By HARRY L. RUSSELL
Chairman, Advisory Council, Agricultural Commission, American Bankers Association

What the World Wants Now Is a Moratorium on Nature's Operations for a Year. Most of the Ills Which Afflict the Farmer Can Be Traced to Persistent Over-Production. Attempts to Manipulate Supply and Demand Do More Harm Than Good.

THE relative importance of wheat has undergone enormous changes in recent years. Once wheat was king in American agriculture, but it is worth noting that the wheat crop of the United States now, even under normal conditions, does not even pay our gasoline bills. Assume an average wheat crop of 600,000,000 to 700,000,000 bushels in the United States. Even at $1 a bushel the total farm income from the entire wheat crop of the nation would only allow about $30 a year for gas and oil for the 24,000,000 autos that jam our highways.

The dread of possible starvation or shortage, as forecast thirty years ago by the British scientist, Sir William Crookes, has now given way to the dread of surplus—glutted granaries that are bursting with accumulated grain.

Canada and Australia

NOT only are we now growing more wheat per unit of land sown than formerly, but the acreage has been very greatly extended. In twenty years, Canada has increased its acreage 250 per cent, while Australia has undergone almost as much expansion. Another significant fact is the materially lessened use of wheat. With the higher living standards that now obtain, a much more diversified diet has developed. More vegetables and fruits are used than formerly. The reduction of 1.2 bushels per person per annum since the last generation necessitates nearly 150,000,000 bushels less wheat than was formerly required.

The factor that has exerted the most potent influence in this terrific world flood of grain has been the rapid development of the machine. While the cost of wages was soaring by leaps and bounds in the immediate post-war period, there was every incentive to encourage mechanization of industry. The farm was no exception to what occurred in other walks of life.

We are only one generation from the old days of the cradle which required from thirty to forty hours of hand labor to harvest an acre of grain. Then came the binder, which reduced the process to four or five hours per acre. Now the combine which replaces the hand labor of a generation ago and does the work in forty-five minutes per acre. Where it used to cost ten cents a bushel merely to thresh the grain, the modern combine cuts and threshes at a cost ranging from three to five cents a bushel.

Just Enough

DEAN RUSSELL pleads for a new attitude of mind. The public's present despair, he says, reminds him of those persons who enjoy bad health so much that they talk about nothing else. Nature, with the aid of efficient machinery, has proved too generous and the world has too much food. A readjustment will take place, says Dean Russell, and suggests that prayers for daily bread be amended with the stipulation that we do not want too much.

Low Cost per Acre

IN the year 1924, there were only four combines in all Canada. In 1929, American manufacturers alone exported to the Canadian Dominion over 7,500 of these machines, and almost an equal number to the Argentine. The application of power has brought down the cost of growing an acre of wheat to a figure which is now estimated at from $5 to $8 an acre, not allowing for the cost of land.

Even with a yield of ten bushels per acre (the average for the United States is between thirteen and fourteen), it is apparent that the cost of wheat production has been cut most drastically from what it was in earlier days.

With this reduced cost of production the possibility of acreage expansion is tremendous, not only in America and Canada but in the Argentine and Australia as well. Lands that heretofore have been regarded as worthless, except for grazing, have recently come into competition with the older wheat belts. Recently, in Australia, I saw hundreds of thousands of acres of wheat growing on land that a few years ago was only sage brush scrub.

More Acres, More Income

UNDER these conditions was it any wonder when our Federal Farm Board was urging restriction of acreage as a means of reducing our wheat surplus, Premier Scullin of Australia was imploring his farmers to grow more and more wheat? Even at the exceedingly low price which this crop brings under present conditions, the income from these desert lands would be much greater from wheat than otherwise, and so furnish some aid in Australia's desperate efforts to balance her budget.

To the machine which has emancipated man from much of the toil and sweat of labor, we can ascribe no small part of our present dilemma. Falling prices have in part come from the flood of food grains that mechanized farming has made possible. The machine age in agriculture has turned off an army of workers who formerly found employment in the harvest fields. As a boy, I remember the moving army of harvest hands, for whose labor farmers eagerly bid against each other at the railroad station in their dire need for extra help to harvest the grain. This army of workers, starting in Texas in July gradually worked their way north to Saskatchewan following the fields of golden grain as the season advanced. This horde of workers has gone the

way of the buffalo, and is as nearly extinct.

Russia

WITHIN the past two or three years another disturbing element has come into the picture. Soviet Russia is attempting to stage a comeback that is fraught with possibility that cannot yet be fully evaluated.

Before the war Russia's wheat exports exceeded by over 50 per cent those of the United States. But the war changed the picture and from 1914 to 1926, Russia was a neglected factor in the world's markets. With the birth of her New Economic Plan, Russia is learning her lesson from the Occident. She recognizes how far behind she is in industrial development. She knows that she could hardly expect to overtake the Western world by the gradual evolution of industry. Consequently, she must do in a decade what it has taken other nations centuries to accomplish.

There are some who assert that America, from now on, is wholly out of the picture so far as future wheat exports are concerned; but it would indeed be strange if American ingenuity, that has devised the major part of the mechanical improvements that have revolutionized this basic industry, will not be able to maintain itself to some extent on a parity with other nations in supplying the world with its daily bread. It will, however, have to be done by methods that are a radical readjustment over those that have long been practiced.

National Barriers

THE spirit of economic nationalism that has been so intensified throughout the world since the war, has led to an accentuation of trade practices among nations that has greatly checked the international flow of agricultural products. Those of us living in the United States where free trade obtains between the forty-eight states of the Union can hardly visualize what a handicap the boundaries of the different national units of Europe impose on the movement of trade. The birth of the new republics and the readjustment of national boundaries has increased the frontiers of Europe from 5,000 miles to over 12,500 miles. The height of the tariff walls that have been erected on these boundaries is certainly no less than was the case in their previous political status; and too frequently are now much higher to scale.

A much more subtle, but an effective method of accomplishing protection to domestic cereal production is the introduction of milling restrictions which compel the use of a certain proportion of domestic supplies with the foreign breadstuffs imported. Nearly a dozen countries have resorted to this device. In Germany, during the past two years there have been over a half dozen changes in this milling ratio.

Government Price Fixing

THE good offices of legislative intervention have also been widely sought in other directions than those above mentioned. Direct price fixing has been tried in some countries, but in such cases the government generally finds it necessary to maintain its position by monopolizing the grain trade, either through some form of license regulation, imposition of a quota, or prohibition of imports.

Governmental relief is, however, a remedy that all nations can try; and most of them do try. If any enactment is of value in obtaining an advantage for one nation over another, generally such benefits will be sought by all if conditions will at all permit of the application of the same.

The imminent problem for agriculture, as it is for business, is to readjust production to existing needs. The obvious way to get rid of a surplus would be to reduce production, but restriction of acreage is easy to resolve about, and difficult, if not impossible, to enforce in an effective way. Even within the confines of a single country, restriction by government fiat has not been feasible, for it is next to impossible to secure united action.

Must Act Together

IF it is difficult for a single country to work itself out of a surplus by legislative fiat, how much more difficult is it to secure concert of action between different countries? No country is likely to attempt to limit its own acreage very drastically unless it is satisfied that similar restrictions will be applied by competing countries. India, Egypt and Russia would welcome such legislative action by the American cotton growing states—and then profit by the higher prices for the cotton that they would grow. This is exactly what the Dutch did some years ago in the East Indies when the British put into operation the Stevenson restriction plan for the growing of rubber in the British Malays.

The world is watching with much interest the development of the Chadbourne plan with reference to the limitations placed on sugar, but sugar is a far different product to handle than wheat. Sugar is a factory crop; controlled by the few; wheat is a farm crop, grown by the many, and over a large part of the civilized earth. Sugar is grown and manufactured in relatively large units. The opportunity for common agreement is greatly increased because there are many less units to consider. In a relatively small group Mr. Chadbourne was able to secure the cooperation of 90 per cent of the sugar exporters of the world, although this group only grew 40 per cent of the world's crop.

Diplomatic Action

THE continued efforts toward stabilization as a means of combating the current depression are indicated by conference after conference which has been called in the European capitals during the past and present year. To reconcile the differences between the surplus-producing nations of Eastern Europe and the consuming nations of Western Europe requires diplomatic negotiations that so far have not succeeded. A preferential tariff which would admit wheat to the west in exchange for manufactured goods needed in the east, is not so easy to work out with the treaty obligations in force which would violate the "most favored nation" clause that is now so deeply imbedded into the existing treaties of many of these countries. The Danubian states now propose to unite their several national grain controls. If this should be effected, it would be a practical expression in a commercial way of the Briand plan for United States of Europe.

It is conceivable that a country can declare a moratorium with reference to the payment of its debts, but what the world wants now is a moratorium on nature's operations for a year. Nature, no doubt, could stand it, but it would be tough on the poor mortals whose job it normally is, day by day, to wrest from the soil not only that which is necessary for their own daily sustenance, but to keep the other fellow in shape to enable him to carry on his part.

Too Many Doctors

IS there a solution for all of these troubles? The Federal Farm Board has already received over 2,000 recipes; and the end is not yet. From all this avalanche of advice, somebody ought to be able to extract a remedy, but just now there are almost as many doctors to prescribe as there are patients on which to practice.

Ultimately, conditions will reach a stage of equilibrium. The waves will subside. Economic law has always operated in the past. We have no reason to think that a new order prevails or that old laws and forces no longer

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Farm Board's Accomplishments

By JAMES C. STONE
Chairman Federal Farm Board

Three Objectives of Marketing Act. Has Given Assistance of $300,000,000 to 112 Cooperative Associations. Competition with Banks Grossly Exaggerated. Stabilization Saved Millions of Dollars, Giving Average Increase of 25 Cents per Bushel of Wheat.

AS it seems to be the favorite pastime for some of our business leaders, and of quite a few who have political aspirations, to blame the Agricultural Marketing Act and the administration of it by the Federal Farm Board for all the economic ills of the world, it may be well for me to recount briefly the world's troubles affecting agriculture and some of the contributing causes which have led up to them.

It is my belief that the present distressing situation is largely attributable to the World War. Before the war began the commerce of almost all countries, both agricultural and industrial, was on an even keel, so to speak; production, through years of adjustment, was more or less in line with consumptive demand and the export trade of the world was moving normally and smoothly to world markets where it was needed. European countries, including Great Britain and Russia, were producing approximately 90 per cent of their requirements of wheat and other grains.

Thrown Out of Gear

WHEN war was declared all this economic machinery, both agricultural and industrial, local and international, was thrown out of gear; in fact, the gears were stripped, and up to the present time all the brains and statesmanship of the world have been unable to repair the damage done and keep the wheels of finance, industry and trade running again on a permanent basis. To take up the slack or lack of production on the part of these countries the other countries which were not in the war were spurred to increase the output of factory and farm, not only for the purpose of feeding the countries at war and furnishing them with war materials, but also to supply manufactured products for the balance of the world which were formerly furnished by the countries at war.

As an illustration, wheat production in Canada, the United States, Argentina and Australia was increased to the point where it was furnishing the bread to the world. The same was true for many industrial products as well as for agricultural commodities.

When peace was restored European countries were in a state of utter economic and financial demoralization, and it took about five to eight years for them to get back to their pre-war production basis. European agricultural production was reestablished much more rapidly than industrial; and during most of the period after the severe post-war price deflation in 1920-21, American farmers were facing much keener competition, and making much smaller profits, than American manufacturers. In 1929, after our stock-market crash, our export markets almost completely disappeared.

The credit situation, especially in relation to international credits, has reached the point where there is practically no such thing, and we now find ourselves in the position of having surplus products of all kinds which are needed by other countries, but they have neither gold nor credits with which to buy them. Almost every country, in trying to improve its own condition has conceived the idea of becoming as nearly self-supporting as possible particularly with agricultural products, and building a wall around itself to protect its own interests against those of its neighbors. This condition, in connection with the lack of credits, has brought about a situation where it is almost impossible for one country to deal with another.

First Thing to Do

IT therefore seems to me that the first thing which will have to be done is to start international trade moving again. This is especially true in relation to agricultural commodities. I feel the conditions are fundamental to our present agricultural troubles and that the Farm Board cannot be held responsible for them. As the problem is more or less one of banking, if it is approached with courage and vision by groups like yourselves it can and will be solved.

The Agricultural Marketing Act became a law in the summer of 1929. The first outward evidence of the general economic depression became apparent when the stock market crashed in the fall of that year. Agricultural and industrial commodity prices began to decline sympathetically, and what has happened since is an open book to all. Broadly speaking, the Marketing Act has three objectives:

First, assisting farmers in developing a more orderly plan of marketing their products;

Second, seeing that world wide information in relation to production and consumption of agricultural products is gathered and taken to the farmers in order that they may intelligently regulate their production to consumptive demand and thereby prevent surpluses at the source.

Third, in emergency situations, purchasing seasonal surpluses of agricultural commodities through stabilization corporations to prevent drastic declines in prices.

What the Board Has Done

ITS severest critics will have to admit that the past two years have been rather difficult ones in which to demonstrate the effectiveness of the Agricultural Marketing Act to achieve the purposes for which it was passed. And yet real progress has been made in strengthening the cooperative marketing associations which were already functioning and assisting in the organization of others. As evidence of this fact, cotton cooperatives handled twice as much cotton in 1930 as they did in 1929; wool cooperatives almost five times their 1929 receipts; grain in terminal markets three times the amount they had previously handled; and there was no cooperative to my knowledge which did not show an increase in the 1930 crop over 1929.

And as further evidence, during these trying times the Board has given

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F. M. LAW

President, First National Bank of Houston, Texas; Incoming Second Vice-President American Bankers Association

The Dole Leads to Bankruptcy

By FRED I. KENT
Director, Bankers Trust Company, New York

Workmen Who Want Employment and Cannot Get It Will Not Suffer This Winter. Any General Plan of Governmental Aid to All Idle Citizens, Including the Number Who Prefer Not to Work, Would Be Disastrous and Its Ill Effects Cumulative.

THE average length of a normal depression that comes from the rise and fall of business, which is inevitable with human beings constituted as they are, is about twenty-four months. That is, the average has been about twenty-four months during the last fifty years in this country. The shortest time was about eighteen months and the longest about thirty-four months. But Great Britain has had a depression since 1923, eight years, and that is what can fall upon a country if it engages in the dole. We must fight to prevent anything of that kind being developed in the United States of America.

Heavy British Debt

THE British debt has been increasing rapidly because they have had to meet the dole in large amount out of treasury funds. That debt is now $36,000,000,000 and $36,000,000,000 for 46,000,000 people is a tremendous sum. That is their internal debt. The internal debt of the United States with its 120,000,000 people is only $16,000,000,000. The debt of France is about $14,000,000,000. But the internal debt of Great Britain is $36,000,000,000.

The dole is not only unfortunate in its effect upon the financial situation of the country but it seriously injures the mentality of the people and has a tendency to pauperize them. The cost of the dole should be added to the debt situation of Great Britain, and must be collected from taxation in a country where the taxation is almost unbearable at the moment.

It is hard to believe the figures of taxation in Great Britain. The incomes in some of the larger brackets have to be paid out almost entirely in taxes. In one bracket, I think it is $55,000; the payment comes pretty close to $50,000. It does not leave sufficient income to pay ordinary running expenses.

In Great Britain, in London, they have had a sort of Saragossa Sea in labor because of the British shipping and trading situation throughout the world. And there has been great unemployment in London for years and years, possibly centuries and it has run around a million men.

In Great Britain there are now 2,500,000 men who are on the dole in some form or another. The insurance fund is practically exhausted. It was figured out to take care of only 900,000 men.

When there is a dole and 2,500,000 people receive funds for doing nothing, and the amount received is sufficient to enable them to live without effort, it immediately takes away the incentive and the ingenuity of 2,500,000 people to try to help themselves and find jobs and to help their country get out of the trouble that it is in.

That is one reason why the number of men unemployed has increased. A dole cannot help but develop that way and it has done so in every country where it has existed.

Breeds Discontent

WE would not want our sons and daughters to have nothing to do but receive a dole, and thus develop into persons who were more or less upset with the condition of life all the time, because it was impossible to be otherwise—we do not wish to bring anything of that kind upon ourselves.

In Germany they started in on a scheme they thought would be much better. That was a sound insurance scheme insofar as any one could see, much like the British but along certain different lines under which the laborers paid a certain amount into the fund, the government paid a certain amount and also the employers. But that was figured to take care of a peak unemployment of 800,000, which they believed would be apt to occur during the winter months, based upon their previous experience.

Instead of allowing their country to proceed along lines that were sound and economic, they increased their governmental expenditures, which were 3,600,000,000 marks in 1913, until they were 10,600,000,000 marks in 1929. Of that 10,600,000,000 the increase of 7,000,000,000 from 1913 carried in it only 1,250,000,000 marks for reparations. It is evident, therefore, that the additional expenses incurred by the government of Germany were far in excess of reparations. In fact, they were about 5,750,000,000 against 1,250,000,000 marks for reparations.

For Social Services

WHAT were those funds paid for? An important part to carry out different social services. I believe the figure was 1,397,000,000 marks for just one certain class of social services during the year 1929. That accounted only for the German Government, whereas the states were doing similar things. Altogether the German people were leaning upon their government in a way that government could not stand.

We must not blame the people. It is a mistake to blame anybody for this situation, individually. It is a development that has come about because people have not been far-seeing, and because the masses of the people inevitably follow those who promise the thing that they wish regardless of whether or not those promises can be fulfilled.

Anyone of intelligence can see the difficulty of trying to convince masses of people that the promises being made to them cannot be fulfilled. The German people had been taught in books and speeches to lean upon the government. No one objects to having a country pay to help those who need it, where something has developed that is unfortunate, that is beyond their control, and when it is something that cannot be taken care of naturally and normally by the people themselves directly, but a government is only able to meet the amounts that its people are able to furnish through taxation.

The result was that the taxation in Germany reached such a point that it caused further unemployment, and instead of the peak being 800,000 men,

the unemployed now are about 4,700,000 men. When 4,700,000 men are out of work and they are being paid from the treasury, what does that do? It adds further to the taxation which creates a vicious circle that results in further unemployment. A situation of that kind must proceed to the point of bankruptcy. It is unavoidable.

In the German situation the people in the other nations of the world realized the great ability of men in German industry, the ability of the German people to produce, to manufacture. They saw that they needed funds in order to help them. They needed loans. These loans were advanced and in large amounts. As a matter of fact, when they figured them up, the Wiggin Commission found that during the time from 1924 to 1930 loans to the amount of about 18,000,000,000 marks had been made. A large part of the loans were returned in the form of reparations.

In Search of Relief

NOW the German Government is trying to reduce these burdens of the Government. One German economist said, "America is now facing the experiment of the dole. England is half way through it. In Germany it is finished." He felt that in Germany they realized that it was impossible to carry on and that, therefore, they were going to find a way out. The result in Germany was that a situation developed where if the other nations needed their funds it was going to be very difficult to get them, and those funds were advanced by many countries of the world. Switzerland, I believe, had 725,000,000 marks loaned in Germany. France's share was about 297,000,000 and that of the United States, 5,000,000,000, although that includes our holdings of stocks in German organizations.

Great Britain loaned over a billion marks. The situation was such that there had to be a moratorium, because without a moratorium it was going to be impossible for Germany to meet the natural demands that were sure to occur with the great fall in prices.

The decline in prices changed the whole picture and it may be remembered that the Commerce and Marine Commission took that up last April, measured the situation and came to the conclusion that a moratorium of some character should be declared, based upon the situation that had developed in the falling commodity prices.

That was presented to our people but it was politically impossible to do anything about it at that time. Why? Because it seems politically impossible with people constituted as they are, to correct a situation until there comes a catastrophe. The bankers were ahead of it; they saw it; they wanted to prevent the catastrophe. They wanted the moratorium before the flight from the mark. They wanted the moratorium because they figured the flight from the mark might result in a flight from the pound and develop a very serious situation.

Political Obstacles

BUT it was impossible to get it because of the forces in government that would not allow a moratorium to take place until a catastrophe has developed. That is one reason the situation has gone as it has and why our depression is deeper than it need have been and is continuing for a longer time than it might have done.

If it had not been for these political conditions all over the world, there is not the slightest question but that we would have moved out of this natural depression and would be well on the way out of it now, but the political conditions with which the nations have been faced have made it impossible and these must be corrected before we can move forward with any effectiveness. But they are being corrected and that is one thing that can give the world great hope.

Following the German situation, when it was found necessary to leave some of the funds that were there for a short time for a further period, instead of drawing them out, that put the British in an unfortunate position. Great Britain had over 1,000,000,000 marks loaned in Germany and Great Britain was the banker of the world in many ways and consequently had calls upon it from those who could not get funds from Germany.

Debt Would Remain

NOW the British people have that debt of $36,000,000,000. If they reestablish their pound after conditions get better—and the interval has not been too long, so that everything has been adjusted in Great Britain to some lower rate—if they reestablish at the old mint par that will mean that they still have the debt of $36,000,000,000 that they have to meet.

Then it might be fair to the British people and to their advantage to convert that debt, as Australia did, which would reduce the interest charge. It would mean that those holding the debt would have their interest decreased. But it would not seem fair, if the pound sterling is changed to $3.50 or $4 or any other figure that is lower than $4.86 to have the conversion also, because the debt would be actually reduced in value, in principal, by that amount, and it would not seem fair to reduce the interest.

According! to the estimates that have been made, business normally grows about 3 per cent a year. When we get through this depression and things come back, we are going to be on a higher level than we were before. Commodity prices are going to resume a different position, and then the return of industry will be in a larger number of units, and therefore the amount that goes to government will be in a larger number of units, and we may be able to work out of these things; but we in the United States are faced with a very real menace, if we do not stand up and prevent any legislation which is going to fasten the dole on this country.

Bad Laws Cling

LEGISLATORS cannot seem to rescind unfortunate legislation even when it is found out to be wrong. There are certain forces working on them that seem to make it impossible, just as it made it impossible for them to prevent the questions that had to do with the demands of the American Legion—not the Legion, but the political part of the Legion.

Is it generally realized that we are paying $1,000,000,000 a year from taxation for ex-soldiers and their dependents? And the end, possibly, is not yet. Vast numbers of those men never saw war. No one wants to cut down one cent from whatever payment is necessary to care for those who have been injured, those who are ill, those who need the attention of the United States, but we should stop to think what it is going to do to them as well as to the country in general if we continue to add to those payments and add to taxation and fix upon ourselves something that later we cannot meet. That is in the nature of the same kind of legislation that would carry a dole.

We have in this country unemployment on the part of those who will not work. That is true in every nation. There are such people. It is estimated that there are about 1,500,000 of them in the United States all the time. You put them on a dole and their turn for prosperity comes and your first cost is to meet their living expenses.

Then there are about 2,000,000 or more who are inefficient, who represent a great turnover of labor. A dole complicates the problem of taking care of the unemployed. We can not be in the position in this country of paying those men and the ones who will be added to the number, from the public

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Only 1.2% of Deposits Affected

Ninety-Six Per Cent of the Banks in Operation at Beginning of the Year Not Involved by Business Depression. Ninety-Nine Per Cent of Deposits Not Affected. Distorted View Has Been Created in the Public Mind. The Greatest Need of the Hour.

AT the opening session of the General Convention of the American Bankers Association, in Atlantic City, R. S. Hecht, of New Orleans, chairman of the Economic Policy Commission presented the following:

American will to work and American genius with the aid of America's resources have made America the greatest country in the world. In common with the rest of the world our country is being forced to face many serious problems but American credit is still the strongest in the world and American money is the soundest in the world. It is certain that they will remain so. We hold in this country a large part of the world's monetary gold. It is still fundamentally true that where the gold is, there the strength lies. It is on this solid foundation that our banking system rests and notwithstanding the storm through which we are passing approximately 22,000 banks are continuing to serve their communities safely and effectively. We have no doubt that America's indomitable will to conquer will see us through the present difficulties as it has seen us through similar depressions in the past.

No aspect of the depression through which we are passing has been the subject of more public discussion than the bank situation. It has been fully exploited on its adverse side. But we feel that wholly inadequate expression has been given to the truly remarkable manner in which in the vast majority of instances our banking institutions have met and overcome absolutely unprecedented difficulties.

Public Understanding an Essential Element

THERE is no disposition on our part to minimize the weaknesses that the recent economic storm has caused in certain parts of our banking structure, in common with every line of business. But we do believe that in the public interest and not merely as a defense of banking, a clearer perspective of the facts is called for. Public understanding of and public confidence in banking methods are essential elements in the preservation of our banking strength. The lack of these has been responsible in large measure for the bank failure situation of the recent past. It is a matter of deep public concern, as well as a factor of great economic importance, that measures be taken in and out of banking to correct this situation.

Distress such as has fallen upon some of our fellow citizens through the tying up or the partial loss of their deposits in banks, whether through conditions which might have been avoided or due to factors beyond the power of any institution to avert, is certainly one to command the utmost efforts of all concerned to prevent and alleviate.

The Facts Reviewed

LET us briefly review the facts. First, in discussing bank suspensions it should be emphasized that only a relatively small ratio of the deposits involved constitute an ultimate loss to depositors. Within a brief period following the closing, many banks have been reopened, while in the cases of those banks remaining permanently closed not infrequently the depositors are paid in full. In the majority of instances the payments are very substantial by the time liquidation is completed.

We make a point of this, not to deprecate the seriousness of the losses that bank failures cause directly or indirectly, or of the disruption to business they bring about. We merely desire to emphasize that bank failures cause far less net loss than the gross figures might imply. We wish equally to emphasize, however, that for those depositors who have suffered from banking troubles the utmost consideration is due. We particularly commend the joint measures that have been taken in this behalf particularly by clearinghouse banks in many cities to relieve the distress of depositors by making substantial advances on their claims.

In a report of this Commission last April it was noted that following the end of 1930 there was a marked drop in the monthly rate of bank failures. The hope was expressed that this improvement would continue. We regret to say, however, that the course of events so far during 1931 has been disappointing as to number of suspensions. However, we are able to say that the ratio of reopening indicates a far better showing in this respect than for 1930. This is encouraging.

22,000 Remain Open

THE figures of closings are but one aspect of the picture. They are necessarily the conspicuous and sensational aspect. It is news if one bank in a community closes. It is not news that over 22,000 banks all over the country remain open and go on quietly and efficiently serving their communities, helping tide many business enterprises over their difficulties, helping many concerns to earn money, helping create the economic activities that mean payrolls and spending power in their zones of influence, and faithfully keeping guard over the working capital and savings funds of their depositors.

Yet, this part of the picture is necessary also to a true perspective of the banking situation. How large a part the banks that did not fail played in the situation is shown by the following facts:

On Jan. 1, 1931, there were 22,769 banks reported in operation with deposits of all kinds of approximately $57,000,000,000. It is against this great background that the bank suspensions of the first eight months of the year must be considered in order to put the bank failure situation in its true perspective. The facts are that, while about 4 per cent of the banks as to numbers, were permanently or temporarily closed in the first eight months of the year, some 96 per cent were not involved, and furthermore that only 1.2 per cent of the deposits were tied up, which means that almost 99 per cent were not affected.

It is obvious in view of the foregoing that an exaggerated and distorted view of the banking situation has been created in the public mind by focussing attention solely on the bank failure figures unrelated to the

broader situation of which they are but a part.

It surely stands strikingly to the credit of the banking profession that, during this period of unparalleled international economic depression, this vast majority of bankers have so competently, so courageously and so successfully met their difficulties and obligations. The effects of the drought, the demoralization of agriculture, the stagnation of industry, the breakdown of trade, the inability of so many heretofore desirable customers to meet their obligations to the banks, the impairment of public confidence by mob-scares and false rumors resulting in unreasoning runs, the abnormal depreciation of quoted security values even in the most wisely conceived investment accounts, the utter collapse of real estate values—all these things have occurred on a nationwide and world wide scale with unprecedented severity. The effects of every one of them have assailed the banks with destructive forces because they are of the very essence of a bank's economic substance. Yet, as we have shown, the great bulk of our banking deposits has been protected without harm. And our banks in a vast majority have continued to serve, support and strengthen their customers and their communities with unflagging and unconquered devotion.

We sincerely feel that the fate of a relatively few banks and the acts of a small number of bankers have had an absolutely disproportionate effect on public confidence in banking as a whole. We feel that it is the great public task of the banking profession and of all business interests as well for their own protection to restore that confidence. For justified public confidence is after all the very foundation of banking.

Corrections from Within

IN this connection we feel that public confidence in established values in America has temporarily been depressed beyond all reason on broader lines than merely those relating to banking. We have in mind especially current conditions in the investment securities markets from which the banks have suffered unwarrantedly. We recall the classic remark of a great banker in a previous depression to the effect that anyone who is a "bear" on America, anyone who "sells the United States short," is sure to go broke. We think this remark still holds good. We believe in free markets and a reasonably untrammeled expression of judgment regarding values. At the same time we hold that the public interests that are at stake under existing conditions are clearly superior to policies of individual gain. We believe that anyone who takes advantage of an hour of public trial to unduly depress quoted values out of line with intrinsic worth from motives of selfish profit is deserving of public censure that is liable to crystallize into agitation for undesirable restrictive legislation. We are of the opinion that corrections in any field of business should come along orderly lines from within rather than through political agitation from without.

It is true of course that a considerable part of the recent excessive selling of securities has come from banks which deemed it necessary to liquidate substantial portions of their own holdings in an effort to build up a stronger cash position, and also from the forced sales which they were compelled to make to protect collaterally secured loans to customers. While every bank has its own problems which it must deal with in its own way we believe it our duty to point out that forced liquidation of this kind aggravates the situation and brings about further deflation in values and therefore banks should retain as far as possible their securities until values improve. We also believe it to be wise policy to give borrowers whose loans are now inadequately secured an opportunity to put them in satisfactory shape by periodic payments rather than by forcing sales of collateral or real estate security under present conditions.

Improvement of Public Sentiment

AS to action bankers can take toward improving public sentiment specifically in respect to banking, we suggest there are several lines of procedure that should be developed on a broad scale.

The facts show that the great preponderance of banking is in capable hands that have proved strong and trustworthy and deserving of public confidence under the test of the most difficult times in our economic history. Clearly it is the duty of our profession to demand the highest standards of banking in every institution that is laying claim to public confidence. American banking is rich in the qualities of technical competence, economic intelligence and responsible integrity that are the essential components of good bank management. In banking itself, rather than in new legislation, is to be found the great source of remedy for its ills. But unless these resources of good banking are put into universal effect so that the highest type of the good management that exists in ample measure in the vast majority of banks is made to prevail in all, we may assuredly expect undesirable, prejudiced and subversive proposals to be imposed upon the banking business from without.

We have said that it is the demand of the hour to repair the damage that has been done public confidence in banking by conditions relating to only a very small proportion of our banks. One of the best ways to maintain public esteem is through the spirit of progress which the American Bankers Association is making a practical force through its bank management and educational work. Participation in these activities is not only beneficial to the actual operations of a bank but also to its position in public opinion. It is not sensational but it is effective.

Depositor Obligations

WE have another suggestion to make as to ways in which banking both as individual institutions and as a great semi-public function can and should establish better perspective of its work in the minds of the public. We believe that both in their advertising and in their direct contacts with customers and others, bankers should consciously and persistently devote more time and thought to keeping people mindful of one outstanding fact: It is that while the bank has many obligations toward its customers equally is it true, especially in times like the present, that the depositor also has certain obligations to the bank to enable it to properly maintain its position in the community.

A bank admittedly is a semi-public institution and there is a mutuality of obligation resting upon both the banker and his customers to maintain the effective functioning of that institution that is superior to the personal interests of either.

Many banks, by advertising and other business development means, have built up large lists of unselected customers, customers who are uninformed so far as the nature of the banking business is concerned. To be sure, these large numbers of depositors mean business volume and activity under normal conditions and should therefore be a great asset to the bank. However, in times of stress they can easily become an overwhelming liability. We believe that without doubt many a bank has been destroyed during the past two years simply because it had too many uninformed and therefore easily panic-stricken depositors on its lists.

We urge upon all bankers that they

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The Savings Division

Broad National Aspects of the Services and Functions of Savings Banks Are Examined in Their Relation to the Economic Health of the Country. The Habit of Thrift Takes on New Importance as a Stabilizer of Prosperity and Insurance Against Depression.

BANKERS who attended the annual meeting of the Savings Division in Atlantic City heard speakers emphasize the value of thrift in maintaining economic equilibrium during depression and the increasing responsibilities which savings bankers must assume as educators of the people and leaders of industry. The subject which was given an outstanding place in the program was the modern importance of savings banks in building up a vast reserve strength of individual savings, against times like the present.

Rome C. Stephenson, vice-president of the St. Joseph County Savings Bank, South Bend, Ind., and retiring President of the American Bankers Association, addressed the meeting briefly on certain little-discussed aspects of the employment situation and the great service which savings banks have rendered to the industrial workers of the country during the past year.

A Brighter Side

"WE hear much about unemployment," he said, "but I want to talk about those who are employed. We have today more than 40,000,000 men and women who are working in industry and the latest estimate is that there will be paid out at the doors of factories of this country, from the first of January, 1931, to December 31, more than $42,000,000,000. This is a remarkable sum of money and if all of these industrial workers would save a certain percentage of their money then in the future, when we would have a period of depression they would not worry because they would have enough to carry them over.

"I think there are many very happy citizens in this country today, some of whom have not worked for more than six or eight months, some who have not worked for over a year, because during the days of prosperity they saved their money. They made regular deposits in a savings bank. They have their savings books and they are enjoying their vacations, although they have no work whatever. I have talked with numerous savings depositors who for years have practiced thrift and economy and who are not worried now. The reason they are not worried is that they have a sufficient amount of money in savings banks to carry them through any financial storm. Some of the savers with whom I have talked have told me that if they never worked another day in their lives they would have all the money they needed.

"There will be a great benefit come to our industrial workers and to the American people as a result of these days of tribulation and depression, and when we emerge from these troublesome times, many persons who, in the past, have neglected to save, will see the error of their ways. In the future, I believe there is a very bright outlook for industrial workers, for the reason that the lessons they have learned during the last two years, will be lessons of a character that will last throughout their lives and cause them to save in the future.

"Savings bankers should be in very close contact with their depositors and do everything they can to help inculcate thrift, economy and correct ways of living. We can render as great a service to our depositors and to the community in which we live as any other class of citizens in that community."

Jay Morrison

Vice-President, Washington Mutual Savings Bank, Seattle, Wash. Incoming President, Savings Division

New Officers

JAY MORRISON, vice-president of the Washington Mutual Savings Bank, Seattle, Wash., was elected President of the Division for the coming year. Gilbert L. Daane, president of the Grand Rapids Savings Bank, Grand Rapids, Mich., was elected Vice-President. The following were elected to serve on the Executive Committee for the three-year term: Wilson G. Wing, president of the Providence Institution for Savings, Providence, R. I.; Henry S. Kingman, secretary of the Farmers & Mechanics Savings Bank, Minneapolis, Minn., and J. V. Holdam, assistant vice-president of the First National Bank, Chattanooga, Tenn. For the one-year term the Division elected T. J. Caldwell, vice-president of the Union National Bank, Houston, Texas.

The retiring President of the Division, A. C. Robinson, president of the Peoples-Pittsburgh Trust Company, Pittsburgh, Pa., spoke on "The Morality of Thrift." He declared that mere expediency and self-interest were not strong enough alone to stimulate

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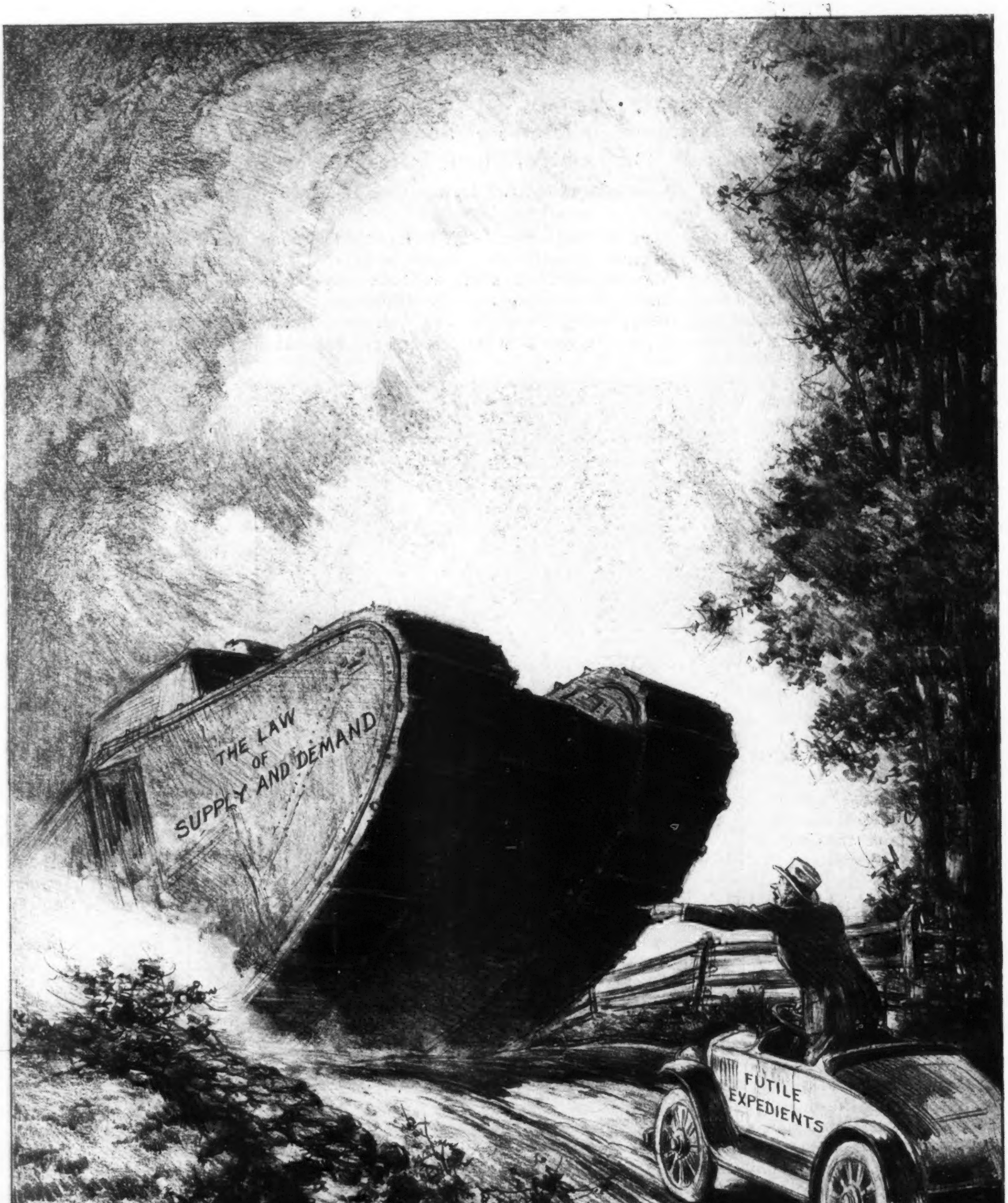

THE RIGHT OF WAY

The Moral Values of Thrift

By A. C. ROBINSON
President, Peoples-Pittsburgh Trust Company, Pittsburgh, Pa.

Bankers as Custodians of 53,000,000 Savings Accounts Have a Responsibility Which Far Transcends Safety and Service to Depositors. They Should Actively Oppose False Economic and Ethical Doctrines Which Would Deny the Morality of Savings.

THE period of deflation following the waste and destruction of values, whether human or material, of the Great War, and of the time of unsurpassed inflation and extravagance which followed it, has taken longer in culminating, and has been more serious in its extent and effect than human wisdom could have foreseen. Today it looks as if we had reached the nadir of depression and that the final test of our system of civilization, of our social, economic and financial structure were at hand. If anyone really doubts the final triumph of fundamental ideas on which we have builded our system, he has no place as a banker, for a banker of all persons must not only exemplify the highest ideals of truth and morality, but must himself have an unshakeable conviction of these ideals and their ultimate triumph. "If thou faint in the day of adversity, thy strength is small."

Unusual Obstacles

THE difficulties in carrying on our work, in promoting thrift, and proving not only its necessity, but its great virtues, have been unprecedented. The extravagances and waste which are essential attendants of war produced mental reactions and changes which went around the world, and where they did not wholly change the attitude of man toward thrift they did seriously affect his practice and relations. In our own country the era of unparalleled temporary prosperity which followed the war, with its real and fictitious creation of wealth at an unequalled rate, the great relaxation of morals and the increase of crime all combined to accelerate the breakdown of faith in what had been considered the fundamentals of individual and national growth and prosperity.

We have passed through an era demoralizing to appreciation of or even recognition of morals and thrift,—an era of unparalleled creation of wealth, of getting and of spending, an era in which fictitious values were made temporarily to seem real and permanent, an era when production was expanded beyond all limit and consumption was stimulated by every art and effort to an incredible extent. New economic prophets arose to honor, who taught that the rapid spending of income without saving meant prosperity for all, that to have high wages and still higher wages and to spend them all, save nothing, even anticipate future unearned wages, would make prosperity and happiness. Spend all, go in debt against future hoped for income, will make the individual rich and happy, was the appeal to which we so willingly responded.

Did we need more money for necessities or luxuries, things, or pleasures? Not harder and better work or saving, but borrowing or speculation was the answer. The worst thing was not the actual experiences and the unsound financial and economic theories which prevailed, but the demoralization of moral concepts and the debasement of personal standards. Unearned wealth, the dollar acquired which does not represent the compensation for a full equivalent of service rendered, whether this service be manual or mental, whether it comes from investment or invention, is almost always demoralizing to the individual and the spending of this dollar for self-indulgence, and without regard to real values received in exchange, is even more vicious in its effects.

Occasional Extravagance

THIS does not imply a cold calculation of values given and values received in every expenditure. There are times for free and unrestrained spending for personal pleasure, there are times for full and liberal giving without figuring costs to the giver, there are times for abandon in life; but these are the exceptions in properly regulated and directed conduct, and do not constitute the habitual course of sane living which is essential to the maintaining and advancing of civilization. Work, hard work, self-denial, economy and thrift must fill the larger part of the lives of the overwhelming majority of the human race if human welfare and happiness are to continue. This is not a picture of a drab and drear society burdened with the carès and struggles of life. It is a presentation of those solid foundations without which cannot be builded the finer superstructures of all the arts, graces and joys of life. Nor must we forget that within the walls, pillars and floors of this superstructure there must be concealed the rigid steel beams without which the building cannot endure.

Self Examination Due

WE are passing through chastening experiences, as severe for the banker as for anyone else, many of the illusions have disappeared and the trappings of a meretricious prosperity have been stripped from most persons, leaving them chill in the storm and looking for reality with which to again clothe themselves. It is therefore not inappropriate at this time to examine ourselves and our convictions and to assure ourselves that our calling and work are fundamentally necessary and are based on something more than expediency or the mere making of profit for ourselves. No service can permanently endure nor should it endure, which does not have the sanctions of the highest morality and not only springs from, but also creates and propagates moral virtues.

Bankers, and especially in their character as savings bankers, are the outstanding apostles of thrift. I do not minimize the importance and value of the aid given by other agencies in this field, such as the life insurance companies and the building and loan associations, but I do not yield our preeminence in this, a preeminence which brings with it added responsibilities that we do not fail in our high mission or in our devotion to our high calling. It is a preeminence which forces bankers to the deepest and clearest examination of themselves and the conduct of their institutions at a time like the present when so many banks have failed and such discredit has been cast on bankers' conduct as financial leaders and the cus-

todians of the savings of the masses. This is all the more reason for a sober reasoning together as to the actual fundamentals on which thrift is founded, and to see how far our ideals and practice agree with these fundamentals.

Thrift Denied

I AM impressed by a challenge recently made which denies the very fundamental sanction for thrift. I have already alluded to the challenge given by the era of rapid accumulation and equally rapid spending, by the urge to extravagance and debt and by the new doctrine of unlimited spending creating permanent prosperity. But the challenge which meets bankers and their profession is expressed in a sentence in an article in a magazine, devoted to social, economic and financial subjects. "No moral value attaches to thrift, although it is the path to security and independence for most of us."

"No moral value attaches to thrift." It seems to me that a banker's own convictions, fortified by his varied experiences, give instant denial to this statement. And yet those few words sum up so concisely so much of the error in recent economic and financial thinking and teaching, that it may be well to restate the truth. To the essential economic values of thrift I shall refer very briefly. With these everyone is fully acquainted and so believes in them as to require no argument from me.

Fundamentally thrift is an expression of good morals, and by thrift I include much more than simply having a savings account or making a sound investment; it is the practical and visible evidence of a state of mind directed by good morals. It is true the article referred to goes on to qualify the blunt statement that "no moral value attaches to thrift" by adding "neither for the individual nor for society are industry and thrift ends in themselves; they are but means to an end—human happiness." This is simply begging the question for human happiness to be justified, and to be permanent must be in accord with the highest morality, and the means to this most desirable end must also be in accord with high moral precept and conduct unless we try to take refuge in the old but false maxim that the end justifies the means. Unless thrift and morals are closely associated, if thrift is to be based only on expediency, it will lack its proper and commanding appeal to humanity and could never have attained its great place in the development and maintenance of civilization.

Where are the financial and economic prophets of yesterday with their contemptuous scorn for thrift? It is true that the voices of some can be still heard urging free and unlimited spending as the panacea for the depression which is now world wide, but their voices sound like echoes among the tombs—tombs filled with their own victims.

It must not for a moment be thought that I am condemning wise and liberal spending, that spending which is essential not only to personal comfort and dignity, but is equally essential to agriculture and to industry, to commerce and to trade, to growth and to prosperity. Not only must the great bulk of the human race spend the most of what it receives in order to live, but it is essential to the mutual welfare of all that we not only produce and earn or give service, but that we spend and consume. The emphasis is on a wise spending, and with such wise spending thrift must go hand in hand.

It is unfortunately true that it takes times of depression, of adversity and of chastisement for most persons to examine themselves and to correct the errors in their ways. In the heyday of easy money, thrift to most people assumes the role of Banquo's ghost, an unwelcome visitor at the feast, and it takes adversity to make them realize that it really is an angelic visitor anxious to aid.

An Individual Matter

IN considering thrift bankers must not look at it in the terms of the enormous totals of the vast number of savings accounts and the strength and size of our institutions. We must not look at the collective results of thrift, but must remember that it is primarily and continuously most important as an individual matter, that its deepest concern is its relations with each human being.

Does anyone believe that individual security and independence, the welfare and happiness of each person are not moral issues, that no moral value attaches to thrift, that no obligation rests on each one to provide if possible for his own present and future? To state the question clearly is to bring its own answer in every sane and honest mind. On every individual rests imperative obligations not only as an individual, but as a member of society or a citizen of the state. These obligations may be modified, but not evaded, by conditions affecting the individual, but they are nevertheless obligations based on and growing out of fundamental moral concepts and laws, and none can plead total exemption from them.

Universal Obligation

ONE of the greatest of these moral obligations is for each one, so far as it is humanly and honestly possible, to earn his own living and to provide for his own future and the contingencies, seen and unforeseen, which may befall. Even where the individual inherits a competence so that there is not the need for further accumulation, there is an obligation to give personal service to organized society, an equivalent of the work performed by those who have to work for their living. In the ideal society of the future there may be the rich, but there will be no idle rich, for the possession of property and income will be made contingent on doing something useful either in service, production or philanthropy, and the latter not simply by giving from surplus funds.

Since writing the last paragraph, which is largely taken from a book written by me in 1926, I am pleased to note that Senator David A. Reed of Pennsylvania is quoted as saying it is his personal belief that "no rich man should be permitted to pass on to his son complete immunity from work."

Thrift goes even beyond morality. I submit that it is a matter involving religion itself. If you believe in the wisdom, power and foresight of a Divine Ruler of the World, you have no option but to believe that thrift, the providing today for uncertain tomorrows, is a basic factor in His planning and ordering the universe. The orderly processes of evolution confirm this. Passing by the accumulations of ores of various metals as being aggregations of fundamental elements inherent in the forms of matter, we come to the later vast stores built up by nature through countless ages and saved in the treasure house of the earth against the needs of man. Think of the slow ages of production and saving of such essentials as coal, oil, and gas. I do not wish to read into the processes of nature a sentimental purpose in making these stores, but one can attribute some planning on the part of a Divine Mind to provide for the needs of the long distant future. We have a right to draw analogies from nature, for we are of it and are its latest and greatest product.

As a mental exercise, I suggest that one must try to reconstruct our present civilization eliminating from it the natural law of thrift in the physical world. For instance, we would be without the clothes we wear for the silk, cotton or wool from which they are made came from nature's processes of thrift.

I am aware that having appealed to religion as an authority for thrift, some may think that the Great Teacher who came out of Nazareth taught the reverse of thrift, but if we will carefully reread His utterances we will find nothing against thrift. His emphasis was all against worry and anxiety for the future, those mental and enfeebling vices which weaken effort and hinder wise and courageous provision for the future. He not only brought to everyone the loftiest of ideals and the most unworldly inspiration, but in the things of this world He was intensely practical. As the Apostle Paul warns, "he that provideth not for his own is worse than an infidel."

Nature's Thrifty Processes

TO come back again to the lessons of thrift to be drawn from nature. The wood of the house which covers one would not be possible had the seed of the tree sprouted and grown only for a season instead of continuing to grow for decades and centuries. The plant blossoms for a while in the beauty and joy of life, then gives itself to the storing up in the seed of that which will again repeat in vastly increased volume providing sustenance for man. Thrift is spoken to people from every side of the material world, even in the great laws of the conservation of energy and the indestructibility of matter. We may not attribute moral consciousness to matter, but these processes and laws have a moral sanction which conveys a lesson.

As we come up in the scale of being we find among the various creatures more and more striking examples of thrift. I need suggest only such examples as the bee, the ant, the squirrel, accumulating their stores for the certain winter. The silk worm spinning its cocoon, and the caterpillar its winter home to protect themselves while awaiting their resurrection, are examples of thrift. Again, I attribute no moral compulsion in the workings of instinct, but the moral implications and teaching are plain.

Expediency, self-interest and personal happiness are good motives so far as they go, and are valuable in arresting the attention of the thoughtless. The striking epigrams and proverbs of Benjamin Franklin, the great teacher of thrift, and the Proverbs of the Bible are good illustrations of expressions of this worldly wisdom, and have great value. They are pithy, striking, attract the attention of the most casual reader, and make a quick and strong appeal to a human instinct which responds more rapidly than any other in most persons—the instinct of self-interest. It is well to catch the attention of the individual and to compel his action by this motive, if it is to wise action. But who believes that expediency and self-interest are permanent in their effects or are the binding and compelling forces which make civilization and good social organization, or, in the long run, maintain happiness? Expediency can be and should be, the handmaiden of morals, but never the mistress in the house.

That "honesty is the best policy" is absolutely true, and it is infinitely better that a man should be honest for good policy alone, than dishonest. But honesty to be sustained and to govern life and character must be the expression of moral conviction. A man will swerve from what is merely a matter of policy much quicker than stray from fixed moral ideas. Policy is a matter of fluctuating opinion. Right and wrong are matters of conscience and moral law. Expediency varies with every changing circumstance. Morality steers by chart and compass through sunshine and storm to the desired haven.

A Child Must Be Taught

CONTRARY to analogies from Nature, such as the bee and its honey, the squirrel and its nuts, the ant and its stores, man does not instinctively and eagerly take to saving. To this is added faulty early impressions. I would emphasize the importance of training children to true thrift. With nearly every child the first thought in connection with money is that it is something to be promptly and wholly spent. There is no training that the money should be the representative of adequate work given to acquire it. The child asks for a cent that it may buy a piece of candy, it asks for a nickel to buy chewing gum, it asks for a quarter to go to the movies. These may all be justified pleasures, but the impression on the child's mind, at the formative period when habits of thought and action are established, is that of spending and not of saving for greater needs and pleasures, of ignoring the labor and effort essential to the original acquisition of the money, and not considering values received when spending. So the child grows up to regard the use of money as primarily and almost wholly to obtain something which gratifies a present and passing desire. No emphasis is placed on the moral responsibility for wise spending and prudent saving nor on the responsibility to use with care and not waste or destroy personal possessions. There is no early training of the moral obligation to provide for one's own future.

To earn a dollar honestly by giving an equivalent value in work, service, or goods, is better than receiving a dollar as a gift. Thrift is a noble virtue, the practice of which develops fine qualities of mind and soul, qualities of independence and self respect, while the recipient of charity all too often suffers a deterioration in resolution, energy, and character. There are spiritual blessings to the giver in opening his heart and his purse liberally to aid the poor and the afflicted, but there are deep social and economic meanings in the profound saying of Christ, "It is more blessed to give than to receive."

Recently, Prime Minister Ramsay MacDonald of England, in a public address referring to the epidemic of gambling on horse races, said, "People sometimes get prizes without winning them. A person who gets $150,000 without earning it is cursed more than blessed by his possession. Make sure first that you have gone through hard work and self-discipline, which makes prizes worth winning."

We may consider the French small business man and the French peasant, especially the latter, as examples of excessive thrift verging on miserliness, which denies them even the decencies of life, but France today is, as a nation, in the best economic position of any of the nations of the world, and while she is beginning to feel the effects of the depression and deflation, I have not heard of any doles or soup kitchens and bread lines there. Wherever the dole has been tried it has corrupted the character of the individual and the nation. Any virtue may be perverted to abnormal use, but there are few misers, and they at their worst do not fill poor houses and charity homes, and are not a forced charge on others.

Three-Fold Duty

THE real argument for thrift is not based upon pure materialism. A moral obligation rests on each individual to provide, so far as he is able, for his own future, so that he shall not become a charge on others when age or infirmity cuts off his earning power. A deeper moral obligation, arising from the tenderest of human affections, rests on the individual to make provision for wife and children, the weak, the unfortunate and the helpless who may be dependent on him. These responsibilities are on every one who can save. Beyond these there lies a great obligation, and that is to the community as a whole in its varied forms of city, state and nation. Just as in time of war, the call of patriotism and the duty as a citizen transcend the call of domestic affection and the

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America's Bulwark of Savings

By HENRY BRUERE
President, Bowery Savings Bank, New York

Heretofore the Nation Has Always Had the Frontier to Overcome the Inertia of Depression. That Outlet No Longer Exists. Instead There Is a New Force, the Aggregate of Individual Thrift, to Aid in the Rebuilding of Our Economic Structure.

WE have been waiting for the automatic return of prosperity. We have been waiting for the discovery of some device by which prosperity could be restored. We have all participated in an effort to institute some such device, but as a matter of fact, the solution still awaits discovery.

I look at this problem not with an attempt to form a conclusion based upon a comprehensive survey of economic fields. I look at it from the standpoint of the savings bank; and as I look upon the savings bank, particularly the banks of the East, and especially because I am most familiar with them, the banks of New York State, I see there a great lesson being written on the history of this country. It is a lesson which I think is fundamental in any process which we may evolve for the restoration of a sound economic policy, and that is the assumption by the people themselves, to the extent of which they are capable, of mastery over their own economic fortunes.

Growth in Savings

ALMOST a miracle is occurring in the growth of savings bank deposits in New York State. If I may cite the Bowery Savings Bank as an illustration, in the year which ended on October 3, 1931, that bank increased in deposits $110,000,000, which represented a growth of about a third of its total growth in a period of almost a century.

Here is a great lesson being written which indicates that we have to find a way of gearing all our policies of stabilization and business solidarity into the plan of life which individual persons who constitute the basis of our economic structure themselves work out for their own security. That is why I believe that today the well administered savings bank is a substantial pillar in the bulwark which will sustain our existing economic order.

I think it is a mistake to regard too lightly the situation in which we find ourselves. It is commonplace, and it is unparalleled. It is unparalleled on the debit side, and it is unparalleled on the credit side. With the debits everyone is familiar, but I cite again the fact that we have at our hand a great new force, and that is the capacity of more people than ever before, at least in America, to cooperate intelligently, constructively, sanely and dispassionately in the rebuilding of our economic forces.

We are the victims of no panacea proposals; no charlatanism, and we are all standing ready to put our shoulders to the wheel when we feel that a policy has been evolved and we are once again upon the high road to security.

What Implications?

WHAT is the fact regarding our economic life which we may see in the implications of what is occurring in the savings bank field?

Heretofore we have always believed that prosperity and our individual security rested largely upon the individual effort of each one. I think it is quite clear now that no matter how thrifty individuals may be, no matter how substantial may be the increases in savings bank balances, that thrift and those increases will not provide individual security unless they are related to a policy of security which permeates our entire industrial life, and for that reason we see groups of men and leaders of industry seeking to establish some plan by which they can achieve stability in their respective industries.

Reference has been made to the periods of previous prosperity in which railroad securities were the favored purchases of investors. As a matter of fact, there has never in a true sense been real prosperity in America. It has been transitory. It has in a large degree been artificial.

We need only review the recurrence of crises and panics. But that is not the significant thing, in my opinion. The more significant thing is that we have got out of those crises and panics more or less by accidental occurrences. Nothing which we did ourselves brought about the reconstruction of that stability out of which we thought our prosperity emanated.

America Had the West

IN the early years it was the great frontier. Always if men became dislocated after the introduction of the machine industries, they could go West. My own people went West. Persons who settled all through the great plains and the plateaus of the Middle West came from New England and from New York State and from Pennsylvania and from overseas, because there was in their view unlimited opportunity. No one beckons now from any part of the country to try our fortunes anew.

The public domain which was one of the great solvents is gone as a practical force in overcoming the inertia of depression. Then there was another thing and that was the constant flow of immigration, new energies, new appetites, new aspirations, new zeal to raise standards of living, and by a combination of those forces creating new markets and stimulating trade.

Then there were those more specialized occurrences, the expansionist policy, and the settlement of the Spanish War and the broader view which America achieved by becoming a master of overseas dominions; and following that, the enlargement of our industrial equipment due primarily to the discovery of new technologies, and after the civil war, the construction of those railroads which now we are so much concerned about. Then of course, by no making of ours and with all its attendant, long-stretched-out disasters, the overcoming of the panic or the depression of 1915 by the great war. And then the rebuilding period and the automotive period of the last decade.

Spurred By Faith

THESE have been processes of transfusion into the life blood of a weakened economic patient. They have not been merely mechanical

transfusions. They have been accompanied by something else which I had intended to refer to as a part of this effort which is being made by individuals in increasing their savings to protect their security. They were accompanied by an unbounded faith, an illimitable vision of the possibilities of America.

I was reared in the state of Missouri, and out of those hills and those fertile valleys of the Mississippi, it seemed that forever there should be a flow of prosperity which could be unchecked. That was instilled in me in school as it was no doubt in everyone. We do not have quite the same feeling now, at least we do not say much about it. We are likely to use an unhappy phrase about not selling America short, a stock-market phrase, and thereby giving ourselves the wrong psychology and one which has caused so much damage in my opinion in this present situation.

There has been not only a mechanical transfusion, but there has been the continuance, the buoyancy, the uplift of this unquenchable faith in America, and I for one do not believe that we can construct an economic society without that quality of faith.

No Mystery

WE must think in simple terms about economic problems. There is nothing mysterious about them, except about their magnitude, and the difficulty is that when we speak of tackling this whole job, we try to become too magnificent. We seek a stupendous solution. We must deal with this problem in detail. We must deal with it as groups. If we truly wish a restoration of prosperity we have to work together in our individual capacities, in our particular industries or businesses to make a contribution to the restoration of that prosperity.

I do not believe individuals saving their money can secure their futures against the unfavorable occurrences which result from economic changes. They must keep their jobs. Business must be stabilized. There is a big job there, and those who are the custodians of individual savings must know about industry. Certainly they must know about the industry in which they invest, as is apparent in this railroad situation, but they have to have the spirit of it and they have to provide a point of view.

I regard the business of savings banking as only partly a business. I regard it as primarily a great social responsibility of trusteeship. I regard it in addition to that as a vastly more important educational influence than probably exists in any other particular business. That viewpoint has to be amalgamated with other forms of business.

If one sits down and says, "well, let us have a five-year plan, let us work out a policy of reconstruction for the railroads, let us attempt to secure for ourselves a formula which will go on irresistibly into the future," he will not succeed.

There is one opportunity now which is being largely overlooked, and that is that heretofore we have had these external occurrences to furnish the jog back to prosperity. Today we have a principle at work which if we apply it intelligently will hasten the restoration of stabilized conditions, and that is the scientific point of view.

All that we have in industry is the result of scientific achievement, of science in the laboratory, of measurement applied to mechanical forces. A few years ago we spent half our time reading the prognostications of statistical experts. Now that is no longer true and we are making a mistake. We should look to statisticians. We should look to sociologists and economists, and to men who have that kind of mind which enables them to synthesize the common experience, or to interpret how we can work together, what instruments we can employ.

Duty of Leadership

I PROPOSE that the savings banks have the courage because of the especially fortunate position in which they find themselves to take up the torch of leadership which seems to be lying smoldering on the ground, and everybody afraid to handle it. I do not propose that they should even read to the railroads a lesson as to how they should be managed. I do not propose that they should read to any other trade or craft or business a lesson as to how that trade or craft or business should conduct itself, but I do propose that they set themselves up as an example of what can be done through cooperation.

We have on the lower East Side in Manhattan a vast area which is being depopulated. In that area for a century savings institutions have been making loans, mortgages on property. It was in that area that the large part of the immigrant population of America was first received and subsequently distributed throughout the country.

New sections of the city have opened up, and what is potentially perhaps one of the loveliest urban sections in the world is now increasingly an abandoned slum area.

The savings banks and the title companies interested in mortgages in that area have subscribed a sum of money and are employing experts to work out for that section, in cooperation with the city of New York, a plan by which that section can be rebuilt.

Just a Start

THERE is a beginning which should spread to the consideration of the whole policy by which loans are made on real property, a beginning which should lead to the establishment of some device for exchanging the skills which are individually developed by experts in handling mortgage loans, a beginning which should eventually mean that cities are built for permanent benefit by the use of borrowed funds, rather than for temporary speculative advantage.

In the same way there are the opportunities which have been discussed and not yet initiated for joint action with respect to the analysis of investments. I say not initiated except in the case of the railroads. There has been a joint effort carried on in several states, in public education, in matters of savings and thrift, through advertising and other devices.

I believe that the savings institutions—and I say this with positiveness as to the institutions of the state of New York—should regard themselves as integral factors of but one institution, an institution which is dedicated to a great purpose and which can best serve that purpose if it knows how to cooperate.

Now for the first time in the face of a great depression we have an instrument which is available to us to use without the act of God. That is the scientific method of dealing with this problem through analysis and detailed segregation of facts and a dispassionate judgment on those facts, scientifically on the basis of information and not on the basis of opinion. We can work together for the construction of those individual segments of our economic order which linked together make up the total of our economic system and if we build the savings bank right we will stimulate the clothing industry, the building industry, other industries to do likewise and as they shall follow gradually we shall have a policy of prosperity, and not a chance occurrence of prosperity.

Why Depression?

THERE is no reason why the whole world should be in the doldrums except the fact that it destroyed so much life and the accumulated capital of the great war. There is no reason in the world why America with its vitality, its health, its freedom from

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What Will Restore Rail Credit?

By FAIRMAN R. DICK
Roosevelt & Son, New York City

The Assurance That Railroads Will Be Allowed to Earn Adequate Profits Would Reenforce Investor Confidence and Open Reservoirs of Capital Now Denied to the Carrier Systems. Truck Competition and Like Problems Are of Secondary Importance.

THE railroad emergency situation is really quite simple, in spite of the fact that in appearance it seems extraordinarily complicated. To simplify this problem all confusing factors which are not pertinent, should be eliminated. Ideas are confused at the very take-off, namely, as to what the word "emergency" means. The dictionary says, "A situation requiring prompt action," and yet one of the more intelligent witnesses in the case, an expert testifying on behalf of railroad commissions of some western states, when asked as to what action he suggested the Interstate Commerce Commission should take at the present time, answered that it should do nothing; that the railroads should meet the emergency by "previously having accumulated large liquid surpluses" and, following that suggestion, "that they should continue to give greater effort to the reduction of expenses."

Truck Competition

AS a first step towards the clarification of thought as to what this emergency is, and the discussion of what prompt action should be taken, it is helpful first to discuss certain railroad problems which can be eliminated, because, while extremely important in the long run, they cannot be met by immediate action. The first phase of this situation is the matter of truck competition. In my opinion, it is greatly exaggerated.

As a medium of line-haul transportation the efficiency of the trucks, in spite of the fact that they are free from many of the burdens under which the railroads operate, is far below the efficiency of the railroads. In 1928, it was estimated that the trucks were carrying 2½ per cent of the total freight traffic of the continental United States, as compared with 75.8 per cent for the railroads. It has been computed that if the trucks were to take over the entire transportation of the country, the investment in trucks would amount to over $18,000,000,000 or approximately equal to the entire par value of bonds and capital stock of all our railroads. The operating expenses would be over $16,000,000,000 annually, exclusive of the extensive annual depreciation of these $18,000,000,000 worth of trucks. Since the operating expenses of all our railroads in 1930 were $4,000,000,000, it would seem that the expense of operating the trucks would be four times the operating expenses of the carriers, and in figuring the expenses of truck transportation, there has been no provision for executive or general officers, traffic men, clerical help, rental of office space, publication of rates, and other items, not to mention the cost of new highways, garages and machine shops. It has been figured out and placed in the record in the present rate case that the rail transportation efficiency per man, as far as the transportation itself goes, is forty-five to one as compared with the truck.

Another study showed that if the proposed 15 per cent increase were put into effect, and as a result sufficient traffic were diverted so that the outcome would be no gain in railway earnings, 400,000 additional trucks and drivers would be required, exclusive of helpers, freight handlers and others. These 400,000 additional truck drivers handling 13 per cent of railway freight traffic, compare with a total of 125,000 men in train service today.

Capacity Figures

IN addition to these theoretical studies, the facts as to the production of large-sized trucks are interesting. The large-sized trucks are the real competitors of the railways. From 1925 to 1929, the production of trucks with a capacity of three and one-half tons and over has declined from 34,000 to 19,000; whereas the production of trucks of between one and one-half tons and two tons has increased from 29,000 in 1925, to 525,000 in 1929. The production of trucks of capacities between two and three and one-half tons has increased slightly, but it is interesting to note that approximately 90 per cent of the trucks manufactured are of a capacity of less than two tons, and only 10 per cent have a capacity of two tons or over.

Not a Vital Factor

THESE figures would seem to indicate that truck competition depends more on convenience and character of service, than on line-haul cost, and further support to this view is the fact that talk about truck competition does not seem to vary in different parts of the country in accordance with the rate structure there. The rate structure of the western district as a whole, is approximately 15 per cent above that of what is shown as "western truck line territory," and yet there is just as much talk about truck competition in the latter territory as in the territory where the rates are 15 per cent higher. Likewise, the truck competition seems to be regarded just as seriously in the eastern district as in the New England region where, on account of the high character of the traffic and the short hauls, the rates charged are substantially higher; in fact, New England would seem to be the clearest refutation of the charge that the trucks can destroy the railroads, for in New England not only is the traffic high-class in quality, with high rates, but the hauls are short, and the roads are excellent.

From all these facts, I believe that truck competition cannot be considered as a phase of the present emergency, although the continued development of measures to properly limit the trucks to their economical sphere are important, and should be pressed. The carriers should develop, as far as is economically possible, a service comparable in convenience to that of the trucks. Where the conditions are such that this cannot be done, then that field should be given over to the trucks. Many state governments are now regulating the use of trucks, by taxation and limitation as to size. Taking all these matters

into consideration, I believe that the truck problem need not be considered as vital in the present emergency.

Another serious problem of the railways, is that of waterway competition. This competition I would divide into two classes—that of the Great Lakes and coastal service, including the Panama Canal, and that of the inland waterways. In regard to the Panama Canal, the figures in recent years do not show any gain, alarming from the railroad point of view. The total coastwise traffic through the Panama Canal was 13,527,000 tons in 1924. Since then it has never been as high as 11,000,000 tons. There is no indication from the figures on the Panama Canal, that the diversion from the carriers is increasing, but rather the reverse. An inspection of the Great Lakes traffic, likewise, is not alarming. In the last decade, the growth of the traffic on the Great Lakes does not seem to have taken place at the expense of the carriers, and if we take 1930 compared with 1929, we find that whereas the railroad's tonnage decreased 15.8 per cent, tonnage on the Great Lakes decreased 19.2 per cent.

In regard to our other inland waterways—rivers and barge canals, the total tonnage, from a national standpoint, is not large. However, the development of these agencies of transportation has proceeded to a point that I believe is economically unsound, and clear thinking is vitally necessary in this respect, in order that the development in the future should be along sound lines. It must be understood that uneconomical waterways do not reduce, but increase, total transportation costs. Sound bookkeeping reveals direct losses to the Government.

Unit Costs

IN addition, when the Governmental authorities order the railroads to short-haul themselves, railroad unit costs are increased on account of reduced volume, and sound regulation would seem to require that every order issued to the railroads to short-haul themselves should be accompanied by an increase in rates on some part of their traffic, in order to maintain necessary revenues. If it were possible to junk part of the railroads as obsolete on account of the waterways, that would be one thing, but this is not the case. The railroads must maintain their entire plant in good order, and the result of a forced diversion to waterways is that the costs are distributed over a smaller volume of traffic. Clear thinking in regard to this is vital, if our transportation system as a whole is to progress along sound lines. However, as this unsound competition cannot be corrected by immediate action, it may be eliminated from consideration.

Another difficulty of the railroads, which cannot be immediately corrected, is taxation. From 1916 to 1929, taxes increased from $157,000,000 to $397,000,000, or 153 per cent. To this large increase of taxation must be added a large sum for indirect taxation, such as the cost of eliminating grade crossings and branch-line service operated at a loss. Taking the country as a whole, there are very many branch lines where a minimum of passenger service, in conjunction with mail and milk service, must be rendered for the convenience of the local community. The loss on this service comes directly out of the earnings of the carriers, and there is nobody now who can be billed. As far as possible, the railroads are eliminating these services, but there is a minimum beyond which they cannot proceed without hardship to local communities. Whenever, in the search for economy, the railroads have gone beyond this minimum, they are promptly reminded of it by the state commission or by the Interstate Commerce Commission. While no figures are available in regard to such indirect taxation, it is clear that it has largely increased in recent years, due to the increase in the number of automobiles and trucks, and the decrease in passenger traffic.

Effect of High Rates

ANOTHER feature of the railroad situation, with serious possibilities for the future, is the effect, on the volume of freight traffic, of a freight rate structure made uneconomically high on account of added costs resulting from this direct and indirect taxation. Other things being equal, the lower the rate level is in relation to commodity prices, the wider can be the distribution by railroads. High rates, in a way, act like a tariff barrier, and tend to reduce traffic by localization of industries and markets.

For many years preceding the decline of commodity prices following the war, the relationship of freight rates and commodity prices had been increasingly favorable for broad distribution of goods. Taking 1890 as a start, and reducing rates and prices to a base of 100, by 1919 commodities had advanced to 247, while revenues per ton-mile had advanced only to 105. This continued reduction of the cost of transportation in relation to commodity prices was a great stimulant to the transport of traffic for long distances. The present depression has now changed the relationship for the worse. If commodities stay at the present level and rates are increased 15 per cent, the relationship between the two would be almost back to 1890. Therefore, if commodities stay at these depressed levels the movement of traffic cannot be as free as it was for the last fifteen or twenty years. This would result in what is known as a "drying up" of traffic, as compared with a diversion of traffic. Traffic is dried up by re-location of plants, by conversion of factories from coal to oil, and by similar adjustments whereby transportation charges are lightened or avoided. I do not believe this will be a permanent condition. It is evident that if commodities fail to rise from their present depressed levels, railroad costs will be materially reduced, and thus make possible a reduction in freight rates.

An analysis of practical difficulties confronting the carriers must include recognition of weakness in the industry that needs correction—where the means of correction are within the industry itself. I refer to the cooperation of the carriers in protecting their revenues as a whole. No railroad agency is responsible for the revenues of a region or district. The past decade is filled with carrier action that adversely affects the revenues of the region, while at first glance resulting in increased earnings to a particular carrier. Even to this carrier, however, the benefits are generally temporary, as the original adjustment is soon restored by rate cuts on the competing lines affected, so that the final result is a restoration of the status quo at a reduced rate level all around. In many of the cases appeal is made to the Commission to suspend the reduction as injurious to the carriers as a group, and frequently the Commission acts to protect the carriers. It is easily seen, however. that the Commission is at a great handicap in protecting the railroads against themselves, and it is unfair to place it in this position.

The Chief Problem

I TURN now to what I consider the vital factor in the present situation, railroad credit. In the words of the Interstate Commerce Commission, "Such a system, as long as it is privately owned, obviously cannot be provided and maintained without a continuous inflow of capital. Obviously, also, such an inflow of capital can only be assured by treatment of capital already invested which will invite and encourage further investment." At the present time the inflow has ceased, from a practical standpoint, absolutely.

The evidence of this is clear. It is

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The State Bank Division

Banks Should Emphasize to All Customers the Essentially Communal Nature of Banking. Cooperation Is Necessary for Successful Operation. Without It, No Institution, Even One Possessing the Highest Skill in Management, Could Serve Adequately.

THE State Bank Division dedicated its Atlantic City meeting to good banking. Speakers discussed various phases of management in the light of experience during the past year and the evolution that is taking place in methods of bank operation. M. Plin Beebe, president of the Bank of Ipswich, Ipswich, S. D., and retiring President of the Division, was unable to be present and the chair was occupied by the incoming President, Felix M. McWhirter, President of the Peoples State Bank, Indianapolis, Ind. Mr. Beebe's address, which appears elsewhere in this issue, was read by his son, E. C. Beebe.

Accomplishments

THE Division heard addresses on the desirability of continuing the dual system of state and national banks, on the essential functions of management, on costs and service charges and on problems of personnel, but the work of the meeting extended far beyond the scope of these specified subjects. As Mr. Beebe stated at the close of his paper on the contribution of state banks to national well-being, "I can report that our Division has seen more constructive work accomplished during the past five years than in the previous twelve years."

"Unquestionably," he said, "the American Bankers Association's campaign for better management has met with marked success; closer supervision of banks has increased progressively; a far higher caliber of bank commissioners and an increase in tenure of office to justify the formation of definite policies have been achieved. Partisan politics are gradually being divorced from banking departments. The salaries of examiners in many states have been increased, which permits the retaining of the services of experienced men of broad judgment. Our state banking systems are increasing in efficiency. State banks operating close to their customers will continue to be a most important influence in the assistance and development of the resources of our people."

Felix M. McWhirter

President, Peoples State Bank, Indianapolis. Incoming President, State Bank Division

Fred W. Ellsworth, vice-president of the Hibernia Bank and Trust Company, New Orleans, gave a recipe for safety, service and profits. He said that striking advances had been made in the science of good banking in recent years and the work was only started. Mr. Ellsworth's address appears elsewhere in this issue. Fred Brady, vice-president of the Commerce Trust Company, Kansas City, Mo., described in detail a method for determining the proper charge to make for bank service. This address, with valuable data which any bank can adapt, is published in this JOURNAL.

The address on the subject, "Man Power in Banking" of Allard Smith, executive vice-president of the Union Trust Company, Cleveland, Ohio, was read, in Mr. Smith's absence, by L. H. Fisher, vice-president of the same institution. He summarized the replies of eighty-eight banks to a questionnaire dealing with problems of personnel. The complete results of this survey, including tabulated answers, observations, comments and suggestions, were published during the summer in booklet number eight of the commercial bank management series sponsored by the Bank Management Commission.

"All that our questionnaire has done," said Mr. Smith, "is to produce evidence that banks on the whole have not given sufficient study to personnel problems, and that lack of uniformity in personnel policy possesses much more significance than is apparent on the surface. If we are going to attempt a solution of these personnel problems, a much more extensive effort than a mere questionnaire will be necessary. I believe that such an effort would prove profitable to American banking in the long run, and I believe that it is a task which should properly be undertaken by the American Bankers Association. It is simply another step in the development of good banking practice, which after all is one of the main purposes of the existence of this organization."

New Officers

THE new officers of the Division for the coming year are Mr. McWhirter as President, and L. A. Andrew, president of the Citizens Savings Bank, Ottumwa, Iowa, as vice-president. For the three-year term of membership on the executive committee the following nominations were confirmed: Frank T. Hodgdon, cash-

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A National View of State Banks

By M. PLIN BEEBE

President, Bank of Ipswich, Ipswich, South Dakota, and Retiring President, State Bank Division, American Bankers Association

The Dual Banking System Has Proved Its Economic Necessity. The Placing of All Banks Under Direct Federal Supervision Would Result in an Undesirable Centralization of Financial Powers. Present Spirit of Cooperation Should Be Continued.

TIMES are not normal and no one presumes to forecast the future. The law of survival of the fittest has, in a measure, temporarily ceased to function. Some are more fortunate than others, due to business location, organization of industry, statutory protection and not, necessarily, to their own executive ability and leadership. Our greatest menace is the loss of faith in our farms and in ourselves.

A *Basic Industry*

IT is hard to conduct any business successfully on a declining market. It has been said that these conditions cannot last forever, that this is nothing new, that better times are always ahead—just how far no one now dares to hazard a prophecy, but my intense faith in the initiative and recuperative ability of the American people leads me to believe that calmer waters are in the offing. As a people, we rarely do things in a half way. It is generally full steam or nothing and we refuse to plod. We have been idling along for some time and in my opinion, some bright morning we will awaken to find things moving again. When we do, organized business will have learned this most painful lesson, that it cannot starve agriculture, our greatest basic industry to a point of ruination and expect it to still have a buying power.

Times of depression emphasize the flaws in our business structure and we are forced to stop to inventory our methods and ourselves and consider plans to remedy the situation. For those who advocate one system of banking I have the highest respect even though I differ with them. A uniform system with only Federal Government supervision may appeal to the average mind during this depression. A close analysis of the situation reveals the fallacy of such proposals.

I have a great admiration for the head of the national system, and, without any desire to flatter, he and his efficient staff as well as the several state banking departments are entitled to the highest praise for the outstanding way in which they have handled their situations. I cannot allow this opportunity to slip by without publicly thanking the Comptroller for his aid and assistance in bringing about the cordial relations which now exist between the two systems. I also desire to commend him for his sincere and fearless efforts to find some means by which the national system can retain its position in our financial structure. I appreciate that no matter what plan is proposed it will meet with opposition.

In 1863 the National Bank Act was passed and by the end of the year 139 charters had been issued against 1,466 state charters in force. In 1874 there were 2,027 national charters in force against 551 state charters. Giving the nationals over twenty years to popularize their system, we find that in 1886, 2,875 national charters represented 75 per cent of the banking resources of the United States, while state charters were numbered at 849. At that time neither system had any great edge on the other as far as resources per bank was concerned. In 1931 we find a complete turning of tables with state banks representing 60 per cent of the resources.

Uniformity

COMPTROLLER POLE, the official spokesman of the national system, has offered two reasons why the national system should be supreme:

First, the commerce of the United States, to be financed in an orderly manner, must have a uniform system of banking under Federal supervision. To the casual observer, in this efficient age, this argument appears sound and only a study of history disproves it. The very fact that we have no such uniformity may be one of the great contributing factors to the rise in our commercial structure. Had one central authority dictated the financial policies of our country since the enactment of the National Bank Act in 1863, the history of a greater portion of the United States might now be written in a far more contracted form. The policies and activities would unquestionably be governed from an eastern viewpoint. Fortunately, during the great era of expansion all of the states were building up their own financial structure. Their right to issue currency having been virtually taken away from them, they were on their own resources. The visions and foresight of those pioneer state and national bankers laboring on their own initiative—being friendly competitors—forced the United States to the zenith of the financial and industrial firmanent. A wonderful picture, this, of what two systems of banking did to advance the interests of all in each of the several states. A different story, without doubt, would be written had we unfortunately followed a system with one man at the throttle in far-off Washington.

State Banks in War Time

THE second reason advanced by the Comptroller for the supremacy of the national system and the one most strongly stressed is that the Federal Government cannot rely upon the voluntary cooperation of state banks and trust companies for the execution of a national policy. State bankers naturally resent such a charge. No such imputation could be left on the doorstep of state chartered institutions as a class during the late war. They went to the limit.

One factor has been overlooked entirely by many, as for instance, in the Ninth Federal Reserve District, where the mortality was the greatest, we find some startling statistics. That district subscribed its allotments three out of five times before any other district. Further it subscribed more than any other district in proportion to population and wealth. The same was true as to the oversubscription. These bonds were high pressured on the people and the small banks. There is no argument on that point. This was the District that first felt the postwar deflation. I saw oats sell for

$1.05 per bushel in the spring and twelve cents per bushel in the fall; corn for $1.88 in the spring and seventeen cents in the fall. Millions of dollars in United States bonds were sold for from eighty to ninety cents on the dollar to keep up reserves and pay debts. These bonds did not get into strong hands until they could be bought at an enormous discount. The state banks especially the small ones did more than their duty.

Always Cooperated

WHILE it is true the Government cannot absolutely rely upon the voluntary execution of a national policy by state chartered institutions, as might be interpreted by the Comptroller or the Federal Reserve Board, on the other hand, we find that, since the installation of the dual system of banking, our Government has had little trouble in financing itself at times when the execution of a national policy was essential. At those times United States securities held up remarkably well. This was not the case when we had a single system of banking.

There is a vast difference between our national banking and Federal reserve systems and a bank which served as an instrument of the Federal Goverment like the First Bank of the United States. It was the financial institution of our Government. No one would care to advance the thought now that our national system is an "instrument of the Federal Government" and officials of the Federal Reserve System most emphatically repudiate the idea that the System is Goverment controlled, but declare it to be owned, operated and managed by the national banks.

Politics

DO the proponents of a single banking system desire to turn the supervision of national banks and the Federal Reserve System over to the Government, to make it a political football, to have it subject to as many ideas as there are members of Congress, to answer the crack of the whip of every change of administrations or conditions? To enjoy confidence banks must be stable. At present the national system controls but 40 per cent of the banking resources of the United States. If the present congressionally controlled system cannot now hold its place what could it expect to do in endeavoring to force the other 60 per cent into line. In our country we do not have mass thinking. We are a nation of independent thinkers. Anything which suggests force by Governmental authority is repugnant. Our present combination together with the patriotic desire on the part of the state bankers should bridge over any national financial policy.

In the recent war when our financial resources were under such great stress, with few exceptions, state chartered institutions met their full share of their responsibilities as interpreted, not only by the several states, but by the Federal Reserve System. In those few minor exceptions the tactics employed by some of the Federal reserve banks to gain their ends was most decidedly not in keeping with the dignity of the institution. Another generation of bankers will have to grow up to forget the feelings engendered at that time.

Prevents Centralization

THIS fear of power centralized in the hands of a few is possibly one of the factors behind the popularity of state chartered institutions and the general satisfaction in our dual system. Also, it is apparent that many a national banker is not completely sold on his own system. This is evidenced by the great flux from national to state charters. Also, by the lack of enthusiastic response to questionnaires sent out by the Research Committee appointed by the National Bank Division of the American Bankers Association to ascertain the reason for the great growth of state chartered institutions.

Furthermore, there is one fundamental factor that is not commonly emphasized and that is state rights. Our Federal Government in its inception was not formed as a governing or supervising body, but as a cooperative union for protection and for advancing the interests of all. It is quite true that the tentacles of bureaucracy, unquestionably prompted by the best of motives, have subrogated the real intents of the Union. The movements of "Back to the Constitution" have been sidetracked by this army of office holders which now have reached the appalling number of 4,000,000. This horde is keeping our national Government in business which is, in fact, spelling death to certain phases of our economic life. To surrender the control of our financial structure and place it in the hands of official Washington could and would only be considered in a time of great emergency and as a temporary measure only. Each separate sovereign state unquestionably has the fundamental right to control its own financial background without undue interference. It is a sacred right that should be jealously guarded and should not be hampered with Congressional authority. Our country is too large, distances too great and its interests too widely diversified to expect one banking system to be so versatile as to deal with so complex a situation efficiently.

Furthermore, two systems insure healthy competition and cause each system to seek and employ the most efficient methods and cost of operation.

It is in the interests of the United States of America that a banking monopoly should not be created. Almost a hundred years ago when the charter of the United States Bank expired the bank had branches in all of the then leading cities. It had a world of influence and power which it apparently did not fail to utilize. Congress had passed a bill to renew the charter but President Jackson saw political danger in a bank with many branches scattered over the Union. Nicholas Biddle, head of the bank, unable to change the views of the President, informed him that the bank could name the governor of any state and could, by its power and influence, name the President of the United States. The President replied, "If the United States Bank has all of the power you say it has, then it has more power than anything in a free country ought to have, and, by the living eternal, it shall be destroyed."

And So It Was

IT is needless to say that he promptly vetoed the bill for renewal of the charter and based his campaign for reelection on that single act. In the convention he was the victor, four to one, over Henry Clay. The records show that in the next sixteen months the bank increased its loans 66 per cent; although being well aware that the Government expected to make large withdrawals to meet its obligations. The President said, "The motive for this enormous extension of loans can no longer be doubted." It was unquestionably to gain power in the country and force the Government, through the influence of the debtors to grant a new charter. It is not necessary to go back one hundred years as it was only four years ago that the head of a great branch banking system inferred that through its branches and numerous stockholders he elected a governor of a certain state who was in accord with his views. The record shows that the desired charters were thereupon issued.

Both Systems Serve

THE dual system has worked out most satisfactorily since the inauguration of the national system.

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Management Tells the Story

By FRED W. ELLSWORTH
Vice-President, Hibernia Bank and Trust Co., New Orleans

Banks Are in the Midst of an Important Movement Having for Its Aim the Perfection of Methods, Broader Service to Their Communities and the Assurance of Adequate Revenues. Every Phase of Administration and Operation Will Benefit Greatly.

AT the bar of public opinion bank management is certainly on trial. This is an obvious fact, but while ten years ago there were 30,500 banks with total resources of $48,600,000,000 there are today in America 22,000 solvent banks whose resources are more than $70,000,000,000, and whose management has been so competent as to enable them to weather one of the severest economic storms in all history.

The banking structure of our nation remains thoroughly sound, and entirely adequate for all business and financial requirements. Nevertheless, the fact that 6,968 banks have closed their doors during the past decade, causing considerable temporary loss and inconvenience to their respective communities, compels bankers to pause and inquire as to the cause and to ascertain if possible what measures can be taken to prevent its recurrence.

A Variety of Reasons

THE Bank Management Commission has just completed a survey by which it obtained specific information from the state banking departments of forty-three of the forty-eight states, covering the causes of failures that occurred in the year 1930. Figures were given on 1,025 banks that closed their doors, and the reasons ascribed by the state bank commissioners were as follows: 277 banks were closed primarily because of incompetent management; 266 were influenced by the flattening out of the real estate market, and the decided slowing up of mercantile and agricultural activities; twenty-nine closed because of the dishonesty of bank officials; hysteria, which develops bank runs caused by a general loss of confidence accounted for 112; and 240 banks closed their doors because of changed economic conditions, which means in the present instance the drying up of small towns due to good roads, automobiles, and the development of the nearby city, with the consequent shrinkage of the potential market for local bank services.

Of course, bad management to a greater or less degree is a contributory cause in nearly all bank failures, for most banks have remained open and solvent in the same communities where other banks, subject to identical conditions, have passed out of the picture.

Supplementing the above information from the state banking commissioners, an analysis of national bank failures for the first ten months of 1930 indicates that of 159 closed national banks, fifty-three failed because of incompetent management, thirty-two because of agricultural or industrial depression, and the remainder were closed as the result of local economic conditions. In this analysis, as in the other, it is pointed out that bad management is a participating factor in nearly all of these failures.

But just what is bad management? And what constitutes a good management? What is the recipe for solvency and what is the canker that develops insolvency?

One Example

CONSIDER the actual case of an old time bank that presents an illuminating example. This institution located in an eastern town was founded some fifty or more years ago. It had a capital of $100,000, a surplus of equal size, and deposits of approximately $2,000,000. The usual group of prominent business and professional men served on its board of directors, and an outstanding citizen, who had the confidence of the community, was its president. The cashier, however, was the "whole works," and served not only as loan committee and credit department, but as paying and receiving teller as well. In other words, practically every important transaction that was handled by this bank passed over his desk. The directors who met monthly and received their gold stipend knew little or nothing of the bank's actual operations, and the president, who was indeed an honorable man, knew little more. When the cashier came down in the morning, he would get the cash out of the vault and arrange it in a pile on the counter. Then as deposits were made he would throw the currency onto this pile, and when a check was presented to be cashed he would use the same money that but a few minutes before had been deposited. Apparently no real effort was made to prove individual transactions, and at the end of the day if he balanced, he was just lucky. If he did not balance, which happened most of the time, it did not seem to make any particular difference.

Inevitable Result

THIS sort of bank operation in itself will seldom if ever cause a failure because any losses that might occur would be too small to affect the bank's stability; but this slip-shod method of handling cash was indicative of the cashier's general practice with every other feature of the bank's activity, including the making of loans. The bank was reprimanded on several occasions by the state bank examiner, and each time the cashier would promise to mend his ways, but never did. Fortunately, the profits were such that for years it was able to absorb the inevitable occasional losses that came along; but when one of our recurring periods of depression settled down on the business world, the harum scarum happy-go-lucky management of this bank resulted in a sudden conference of the board of directors with the state bank examiner, the marking off of practically all of the capital and surplus, and the refinancing of the institution by the directors and stockholders to save it from disaster.

The most conspicuous place where a major weakness becomes evident is in the loan department; and, according to H. N. Stronck, some of the soft spots that should be pointed out are:

Lack of diversification.
Too much concentration on a few borrowers.

Inadequate and unsafe collateral back of secured loans.

Failure to insist on accurate financial and operating statements on unsecured loans.

Too many long term loans.

Too much capital financing.

Lack of a seasonal schedule of maturities.

Inadequate compensating balances.

Too many loans to duplicate borrowers.

All bankers will agree that there should be some way to educate the bank customer as to the difference between capital loans and current loans. Four impressive looking gentlemen called on me not so long ago, and one of them, acting as spokesman, outlined their plan for organizing a new manufacturing enterprise. He said that they would need $50,000, and had succeeded in getting subscriptions of $10,000, and wanted our bank to put up $40,000 on the personal endorsement of the four organizers. I had a difficult time to explain to those men why a bank cannot engage in the laundry machine business, and they could not understand why, with a $40,000 interest in a $50,000 company, the bank would be the major partner, with all of the risks that accompany a new enterprise.

Secondary Reserves

THOSE who have had occasion to examine and analyze the portfolios of failed banks during the past several years have discovered that in altogether too many instances the portfolio of secondary reserves carried too large a percentage of perfectly good bonds that enjoyed a restricted market or no market at all, with the result that when quick liquidation was necessary the bank found itself in the embarrassing position of holding securities that were frozen.

It is a fact that many of our banking friends are poor buyers. When a good salesman tackles a poor buyer, it is too bad for the buyer. Literally hundreds of banks, because of this weak characteristic, have been sold their secondary reserve investments, instead of buying them as they should have done.

The attitude of the general public is often based on a misconception of what has actually happened when a bank closes. *The Saturday Evening Post* for Aug. 8, 1931, carried as its feature article "A Story of Banking," by Garet Garrett, accompanied by a Wyncie King cartoon, which pictured the explosion of a local bank as carrying down with it the agriculturist, the manufacturer, the merchant, and the social life of the community. Anyone who stops to think will realize that a bank usually fails because its customers—the farmer, the merchant, and the manufacturer, and the householder—have first blown up and consequently are unable to pay the bank what they owe. The mistake that the bank makes is in loaning money to those who are likely to fail; and it is right here that good management exerts its conservative influence, and says, "no."

Profit or Loss?

FOR years the banks of our country, inspired by an over-ambitious desire for growth, and more growth, and spurred on by an unintelligent competition, revelled in a wild orgy of "service," regardless of cost or profit. A recent survey by the Bank Management Commission revealed the amazing fact that this senseless saturnalia had developed an annual loss to the banks of the country amounting to $300,000,000, or enough to provide an 8 per cent dividend on the capital stock of all our state and national banks.

Referring to account analysis, in spite of all the discussion, all of the definite information that has been broadcast on this subject, it is a lamentable fact that a large percentage of our banks even now do not know their costs, and make little effort to determine whether or not their accounts are producing a profit, or a loss. This fact was ascertained not so many months ago when the Bank Management Commission communicated with about 4,000 banks in the smaller cities and towns to determine whether or not certain types of customers were keeping adequate balances. The replies that were received from these banks were of a character to indicate that fewer than 10 per cent of them were actually analyzing their accounts, or had any idea how large a balance was required to insure a profit.

For example, some banks were satisfied with a $300 balance, and considered that the account was worthwhile on that basis, although it is easily demonstrated that an account displaying normal activity should carry at least $1,000 in order to provide the bank even a slight profit. Obviously, good bank management absolutely requires a reasonable profit for services rendered, and an intelligent analysis of accounts, so as to be sure that such a profit is obtained. It is highly discreditable to our banks that in the average institution our insatiable appetite for size has defeated its very purpose, for we have thus deliberately surfeited ourselves with unprofitable accounts to the extent that 40 per cent of our depositors carry less than 1 per cent of our deposits. For example, in a bank with 3,000 accounts carrying a deposit line of $500,000, it means that 1,200 of those accounts will have deposits totalling $4,440. The bank could dispense with those 1,200 customers and still have deposits in excess of $495,000. Of course the service charge provides partial compensation for the loss on this business, but it is well to remember too that as a rule these small accounts provide more than 50 per cent of the activity at our tellers' windows.

Personnel

THE bank of yesterday possessed personnel problems, but did not recognize them as such. The chief clerk usually was the officer in charge and his job was to hire and fire without any regard to the cost of replacement.

I recall that when I applied for my first position I was directed to a chief clerk, who sat on a raised platform inside a marble counter, and literally looked down on everybody who approached him. In those days boys were hired and fired in such a proportion as would create an annual employment turnover of about 30 per cent. This of course was expensive, but the banks did not know it as most of them do now.

In those days banks even in the larger cities that possessed well organized credit departments were few and far between; for, as a rule, credit information was under the hat of the president.

It was not more than a decade and a half ago that a prominent middle western bank, which had been in operation for fifty years, suddenly awoke to the fact that when the president was out of town the bank was absolutely devoid of any credit information. This condition caused the bank considerable embarrassment and the loss of a substantial account. When the president returned, one of the more courageous officers told him the facts, and the president was big enough to realize that the criticism was well founded, and immediately gave instructions for the organization of a credit department.

Interest on Accounts

ONE of the prime causes of decreased profits and consequent liquidation is the abnormal interest rates that banks have paid as a result of the devastating competition for business. Fortunately the present situation in business and banking has awakened many of our bankers to the necessity of conserving their resources by lowering the exorbitant

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Measured Service Charges

By FRED B. BRADY
Vice-President, Commerce Trust Company, Kansas City, Mo.

Recent Studies and Experience Emphasize Need for Some Uniform Method of Analyzing Accounts and Measuring Profit and Loss Accurately. The Purpose of a Charge Against Unprofitable Accounts Should Be Corrective and Not to Make Money.

A PROPER and measured service charge on bank activity is never made with the idea of penalizing a customer. It is a means of equalization between customers, and it should always be borne in mind that analysis and charges are means of education, and every bank hopes each time a charge is made that next month the account will show an analysis profit. To do its full duty, a bank must try every fair means to convince a customer that there are certain requirements applicable to accounts generally, and then deal with his account specifically, showing means for correcting his analysis loss.

The Bank's Side

IN making this explanation to a customer it is often necessary to start at the beginning. The customer realizes that it is a great convenience to bring the accumulation of his business to a bank in checks, local and foreign, drafts, cashier's checks, currency, silver in all denominations, listed on a deposit slip, and to leave it. He then feels that his worries are over with these items of deposit. They are in part; but the bank's worries are just beginning.

Consider the many operations that are necessary in handling a deposit and getting the various items back to their original drawer. Think of the time and labor it takes to sort, resort, list, endorse, prepare for mailing, post to ledgers, and statements. Think of the manpower, the machine power, the stationery and the postage that is necessary to handle these transactions. Should it be difficult to convince the average customer that there is expense in this operation? Take up each operation separately and explain how much it costs to handle them and how the bank measures the per item cost in handling the local checks, the checks drawn on itself and checks drawn on out-of-town banks. Measure off the number of days it takes to collect the out-of-town checks; explain that these days outstanding are termed "float" against the account, that to allow the customer to check against float is only loaning him money in another form.

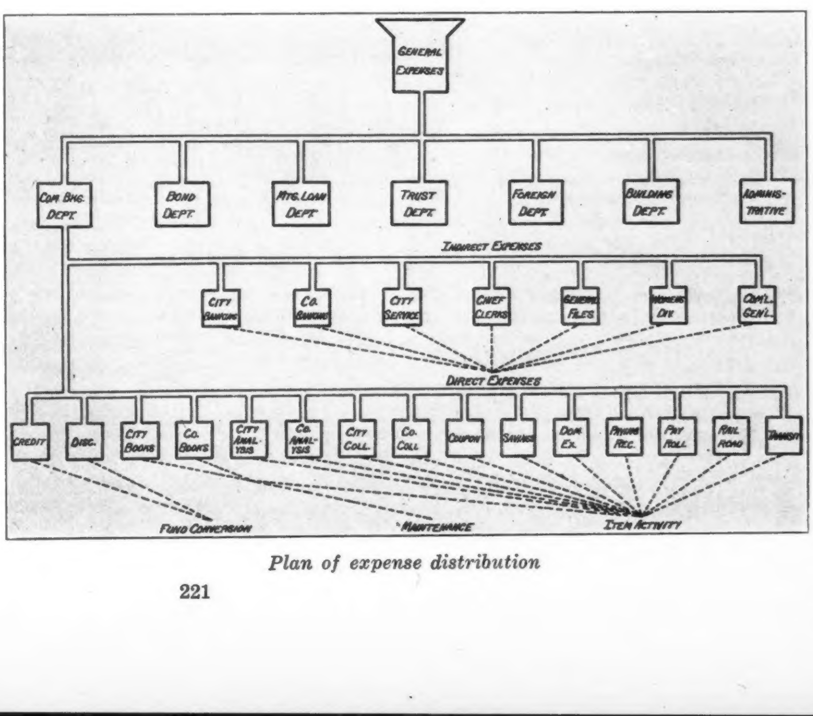
When all of this is done he must be shown how a bank makes its money on loanable funds; how these funds are the result of deducting the float and the legal reserve requirements from his balance, and that these items deducted are non-earning. Perhaps he will ask how the bank knows the cost of handling these items. With a yardstick of costs and expenses this can be demonstrated.

In our school days we learned that there was a standard of distance or quantity in measuring whatever we had in hand, and in measuring our bank operations we must have a common unit on a yardstick that can be used in every department and on every item handled.

Put the Facts Before Him

IN discussing a customer's account with him, first hand him an analysis of his account, as shown in Table I. He can easily see that the average uncollected items or float of $3,200 must be deducted from his average daily book balance of $7,800, and the percentage of legal reserve, 11 per cent in the table, must be deducted from this remainder to show the net funds for employment, amounting to $4,094. He can easily understand that the income on net funds put out at a certain per cent, 4½ per cent in this case or $15.35, together with any exchange we may have received, will give our total income or gross profit to the bank. From this gross profit must be deducted costs and expenses to show the net profit or loss. The interest, if any, paid him on his net balance, amounting to 1½ per cent or $5.11, and the exchange charged, $1.37, total $6.48, are items easily understood, but the per item charges under "activity costs" in each case which follow and how they are determined, need explanation.

In arriving at these per item costs, we proceed first by an allocation or distribution of general expense to each department. Every bank keeps an expense account showing the items in detail and from this account depart-



Plan of expense distribution

mental expenses are easily obtained and classified.

The accompanying chart illustrates the distribution of expenses. In the tank at the top we pour all the general expenses of the bank. We then open the faucet and these expenses flow to the major departments, commercial banking, bond department, foreign department, trust department, and others. For our purpose we will use only one of these departments, that of commercial banking. The chart is drawn for the purpose of demonstrating the commercial banking department. A similar one should be worked out for every other department—bond, mortgage, loan, trust and foreign.

The expenses of the commercial banking department are then drawn into indirect classifications of city banking, country banking, city service, chief clerk's general file, general commercial and into the direct classifications of credit, discount, city books, country books, city analysis, country analysis, collections, etc. The tank will therefore be emptied and each department and division is burdened with its share of these expenses.

It is advisable that these indirect expenses be eliminated by unloading them into the direct expenses in some fair manner and in a manner peculiar to each bank. For instance, if the credit department is 5 per cent of the total direct expense, then it should absorb 5 per cent of the indirect expenses shown on the chart. We then find ourselves confronted with the three items of expense shown at the bottom of the chart, namely, fund conversion, maintenance and item activity. These expenses are in addition to interest paid on deposit accounts.

Table II: Application of Time Study to Transit-Clearings Division Operations

	Average Handling Time in Seconds	Number of Items Handled	Average Time Required	Per Cent to Total	Expense Allocation
Checks on Own Bank:					
Internal	6.2	34,321	212,790	10.45	221.99
In Clearings	2.6	78,732	204,703	10.05	213.48
Individual, Firm or Bank Credits	17.3	18,764	324,617	15.94	338.61
Tellers' Cash Tickets	6.2	8,375	51,925	2.55	54.17
Transit Items	10.2	51,204	522,280	25.65	544.87
Collection Items	3.6	822	2,959	.15	3.19
Clearing Items	7.1	101,021	717,249	35.21	747.95
Total		293,239	2,036,523	100.00	2,124.26

Cost of Each Item

THE per item cost, though slightly complicated, is simple. With the unit of a second of time for our purpose we find out just how many seconds it takes to handle a deposit, a check on ourselves, a clearing item, and out-of-town item and other items. These seconds for handling each item or any other unit one might use, multiplied by the number of items in each classification handled, carried out and totalled will give the number of seconds for handling all these items. For example in Table II the proportionate part of the total expense, $2,124.26, under "expense allocation," can be divided as to each class of items handled. This proportionate expense divided by the number of items will give the per item cost in commercial banking. We have therefore arrived at the per item price we have paid for our funds in this division.

Fund conversion expenses are those of the credit and discount departments plus an amount of indirect expense measured by the time expended by lending and investment officers in handling these funds. Having determined these conversion expenses, we apply them as follows:

Add:		
Capital	$400,000.00	
Surplus	200,000.00	
Undivided profits	100,000.00	
Borrowed money, if any		
Average daily deposits ...	4,000,000.00	$4,700,000.00
Deduct:		
Float	$500,000.00	
Reserve (legal plus cash).	400,000.00	900,000.00
Net funds for investment..		$3,800,000.00

The conversion cost is applied as so much per thousand dollars of net funds per month, and is shown at the bottom of Table I under "conversion cost" and lending cost, twenty cents per thousand per month.

Maintenance expense divided by the number of accounts will give the cost per account. This covers the cost of carrying an account on the active books, exclusive of any activity in the account. It covers the cost of a statement sheet each month, a ledger sheet occasion-

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Table I: Account Analysis
For the Month of June, 1931

Average Daily Book Balance					7,800.00
Less: Average Daily Total of Uncollected Items					3,200.00
Net Balance					4,600.00
Less 11% Reserve					506.00
Net Funds for Employment					4,094.00
Income					
Income on Net Funds @ 4½%					15.35
Exchange Charged					0.00
Total Income					15.35
Expense					
Direct Disbursement:					
Interest Paid on Balance @ 1½%				5.11	
Exchange Absorbed				1.37	6.48
Activity Costs:					
Drafts on us	420	@ .025	per item	10.50	
Credits	25	@ .10	per item	2.50	
Transit Items	165	@ .01	per item	1.65	
Clearing House Items	524	@ .0075	per item	3.93	
Collection Items		@ .20	per item		
Other Services (by Analysis)					18.58
Other Costs:					
Conversion Cost (.20 per M per Month)				.80	
Maintenance Cost (.50 per Acct. per Month)				.50	1.30
Total Expense					26.36
Profit					
Loss					*11.01

*Entry in red.

National Bank Division

Problems Were Approached Under Two Classifications: Those Peculiar to the National System and Others, Chiefly Questions of Management, Common to All Banks. Importance of the National Banking System in the Life of the Country Stressed.

THE National Bank Division at Atlantic City discussed the chief problems confronting national bankers. The program included two addresses on the future of the national system, one on the necessity for bankers to know all about the business of every borrower, and one urging commercial banks not to depart from their natural and proper function, namely, receiving the temporary surplus of a community and lending it to persons temporarily in need of accommodation. In addition to this formal program, the discussions which took place in committee meetings yielded much constructive thought on investment questions, reserves, costs, service charges and the administrative questions which bankers everywhere are trying to answer.

Important Convention

EDMUND S. WOLFE, president of the First National Bank & Trust Company, Bridgeport, Conn., and retiring President of the Division, prefaced his address on the changes which national banks feel should be made in Federal regulations, with a declaration that the American people and the banking world at large regard the present Convention of the American Bankers Association, as the most important ever held. The same words might have been applied to the meeting of the Division for there was a feeling among delegates that this was, in many ways, one of the most important gatherings of national bankers ever held.

"In a period of world-wide economic and business disturbance," said Mr. Wolfe, "we are called upon to make public report of our stewardship to our depositors as to the safety of their funds entrusted to our care, to our stockholders as to the use of capital supplied for our institutions, and to the public at large, a clear exposition of the part we expect to take in solving the many problems that beset the path toward normalcy.

"Each Division of the Association, in its own way, contributes its share to this report and the National Bank Division is no exception. The custom established in this Division is to accomplish this through a detailed report to the executive committee covering every phase of our activities and through the address of the President to the Division." Mr. Wolfe examined the various questions giving bankers most concern and reached the conclusion that "banking is sound and has the stability to work out its own problems and is doing so in a satisfactory manner." His address appears in this issue of the JOURNAL.

W. Walter Wilson,
President, First Milton National Bank, Milton, Pa. Incoming President, National Bank Division

Guy P. Miller of Searle, Miller & Company, New York, reminded bankers that they were not outside of industry but were an integral part of the industrial system and responsible in many instances for the successful management of industries. In addition to protecting their own interests, said Mr. Miller, banks must remember that poor judgment on credit risks may have a serious effect on the prosperity of the community. The only way in which banks can wield their influence effectively, he said, was by keeping in closest possible touch with the business conditions of borrowers. Mr. Miller's address appears in full elsewhere in the JOURNAL.

Eugene M. Stevens, chairman of the Federal Reserve Bank of Chicago, recalled that the public, a few years ago, were criticizing banks for being too conservative and impeding the progress of the "new era." Bankers were being censured, he said, because they did not open up their banks to promotional schemes. It is now recognized, however, that these bankers "have operated their banks within their proper function as such, with full realization of their responsibilities and have set a high standard for the banker of tomorrow to emulate."

Frank P. Bennett, Jr., editor of the *United States Investor,* Boston, Mass., approached the question of the future of national banks, with a directness which gave his remarks special timely value. He recalled the historical need which brought the national banking system into being and indicated that a still greater necessity existed today of preserving the system. The great question, he said, was whether or not there existed today among national banks enough devotion to the system to cooperate on a program and present it zealously to Congress. Mr. Bennett's address is published in this issue.

W. Walter Wilson, president of the First Milton National Bank, Mil-

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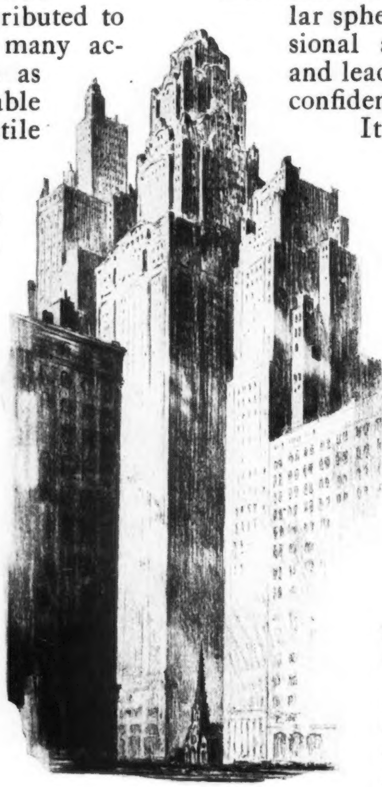
What Ails These Times?

IN times not very remote, people used to regard an epidemic of disease and other phenomena that they did not understand as an expression of the wrath of the Omnipotent.

With that fatalism attributed to some of the Orientals, many accepted such misfortunes as inevitable and unavoidable —something that was futile to combat.

Over the years, patient, scientific research has slowly but surely found causes of such calamities and, the cause discovered, the way to prevent the recurrence was close at hand, so the years roll by with less and less pestilence in the civilized countries and with less of physical suffering from disease.

But in the height of our progress in that direction, and in all directions, how strange it is to come to the realization that after all there is something wrong!



That at the pinnacle of our progress there comes a strange, baffling depression when we have more playthings than the world ever before had, and more time to devote to amusement; that, in short, having seemingly mastered the art of living, there appears to be appalling want in the world; a something in the machinery of society at home and abroad that is setting us back.

With more churches, more schools, more books, more leisure than ever before in the civilized nations; more and better means of transmitting intelligence, crime of all kinds has increased apace, and permeated every strata of society with an uncanny impartiality.

What ails these times that so many men keen enough in their own particular spheres of business or professional activity are bewildered, and leaders few and so lacking in confidence?

It seems to be plain that with all of our raising of things to the skies, all of our speeding hither and yon, all of our receiving of voices from afar into our homes and hearts, we have not raised our thoughts often enough to an Omnipotent; we have not turned often enough to the one source of Intelligence; we have forgotten, that every man is an inlet to Divinity.

IN all our making, striving, building, achieving we have not been enough concerned about the ingredient of spirituality.

The times need leaders, not of the kind that will mend our affairs with words or statistics, but men like Lincoln who, with a quiet, convincing resolution far more impressive than any amount of vocal volume, can say, like him,

"I promised my God I would do it!"

James E. Clark

Changes Asked by National Banks

By EDMUND S. WOLFE

President, The First National Bank & Trust Co., Bridgeport, Conn., and Retiring President, National Bank Division, American Bankers Association

Study of Federal and State Bank Laws Suggests Several Changes Designed to Strengthen and Preserve the National Banking System. Among These are Regulations Governing Reserves, Trust Powers, Affiliates, Circulation and Reserve Membership.

THE banking situation has been very unsatisfactory, but it has never been as bad as extreme pessimists believed. We are fighting a host of problems and making encouraging progress, but the depression is not over and neither are our troubles. Statements often heard that the banks are not doing much to stimulate business at this time are not true. It is my belief that generally all legitimate credit demands are being met while, at the same time, they are busy readjusting themselves to a depression level just as other business concerns are doing.

While the large city banks always must be prepared to carry the heavier burden, they are generally in the best position to do so due to the character and liquidity of their assets and the further fact that, due to their many sources of advance information, they are constantly forewarned and consequently forearmed. Banks in smaller cities and towns generally have borne their share of the burden as well all through; getting into liquid condition is more difficult, due to their inability to diversify their resources. In consequence the effects of bank failures that have occurred, while serious, are usually localized.

In a Strong Position

BANKING has much reserve power. While considerable cash is in hoarding, it will emerge when confidence returns, and will tremendously strengthen the banking position. Banks also have large idle excess reserves which can be drawn upon in time of need and generally are in a high state of liquidity.

Banking troubles are twofold, one on each side of the balance sheet. Assets are weakened by general price and earnings decline. Hardest hit are railroad bonds and real estate mortgage loans. Widespread commercial failures have left in bank portfolios notes of questionable value. Heavy declines in security and commodity prices and earnings have left notes with insufficient collateral. The drop in the price of foreign securities, deposits frozen in other banks by failures, and signs of weakening of municipal bond prices due to tax defaults, are other troubles affecting the assets of the banks.

Simultaneously, banks are being drained of their funds. Depositors are frightened by hearing of banking difficulties, by bank failures, and by multitudinous rumors. Deposits have been withdrawn and hoarded in almost unparalleled amounts in some sections of the country. Foreign depositors have needed their own funds, have withdrawn hundreds of millions of dollars. All this has occurred just at the time when assets are most difficult to convert to cash to meet this demand.

Safeguard Deposits

THE best banks have rapidly done the obvious thing of seeking liquidity, many in advance of the need. They have pressed for repayment of loans, have sold weaker bonds as rapidly as possible in a thin market, and have declined to make any but the most liquid new loans. Business dullness has made good commercial paper scarce, and they have put funds into United States Government and a few other highest grade bonds, and into other banks. In these two categories lie a large portion of banks' assets, ready for use, as a safeguard to depositors.

Cash and government bonds give a very low income. So bank earnings have declined rapidly. Consequently bank stock prices have dropped throughout the country. This entirely natural occurrence has disturbed many depositors and stockholders, further disturbing confidence. Yet it is really a sign that the banks are meeting their problems.

Lower earnings necessitate every possible step to cut costs, and banks, like other businesses, are cutting deeply. The chief cost is interest payments, and depositors are receiving less and less. State and local government deposits are an especially serious problem, being in a preferred position and being so large, but some bankers already are coping with this situation, and many banks would be in a much weaker position were they not taking these measures. That weakness would depress business much more seriously than does the present policy.

Change If Needed

IT is our privilege, our duty, and our purpose to give dispassionate thought to methods by which banking is conducted and try to devise means for the achievement of greater stability. If it is found that policies can be improved they must be changed. Whatever wasteful practices are followed must be cast out. Wherever betterments can be installed they must be adopted, even though they may involve changes of considerable magnitude and differ rather materially from present usages.

The changed condition of business and the difficulties experienced in all lines make necessary a more intensified study of the methods employed with a view to devising changes. Though banking developed some practices which proved inadequate and unsatisfactory in the stress of the time when practically every other business turned to banking for support, the need for improved methods in banking is no greater than in other enterprises. This, however, should not swerve bankers from their duty to their own business, and it is in no sense an indictment of the manner in which banking is conducted to say that whatever defects or weak spots are discovered should be strengthened.

The major involvements in which banks find themselves are largely the results of conditions which have also affected adversely practically every other character of business. But this only makes our task the more imperative, for in addition to trying to improve our own business there is upon banks the duty of striving to

raise the general business structure to a higher level and there give it support. So if in our own business there can be found instances wherein changes would be improvements we are bound to search them out and adopt them. And this is exactly what our program has been. We have given wholehearted support to the study and analysis of all bank practices to determine their worth; to learn whether greater dependability could be worked into them; to ascertain whether they produce exactly and completely the results desired in the most direct and economical manner. Much of the road to recovery leads through an adjustment which more precisely attunes banking costs and banking services to banking needs.

Place of National Banks

IN addition, however, to giving continuous cooperation to the movement which studies and analyzes bank practices the National Bank Division feels a responsibility of another character, but highly important also in its contribution to bank stability. Clearly one of the means really essential and necessary to this end is the preservation of the National Banking System. Its cohesiveness, the mobility of its resources, its accountability and its assistance to the Federal Government, the uniformity and high standard of its conduct and its regulation and its support of the Federal Reserve System, make it an important element in American governmental and private business and require that it be maintained.

These are by no means inconsequential factors whose disappearance would cause no concern. On the contrary it would be very disquieting to have no coordinated banking force to support agriculture and commerce and industry and to exert its power concertedly in times of need. Were business dependent wholly upon forty-eight different state systems of banking it is obvious that the assurance of much of the present uniformity and the completeness of service would be lacking.

With this in mind, and spurred on by a realization of the steady decrease in the number of national banks and the consequent lessening of their influence the National Bank Division undertook a study of the laws under which its banks are conducted with a view to suggesting amendments which would restore the former relative position of the national system. In spite of its splendid qualities which make it almost indispensable, its growth has not kept pace with that of banks operating under authority from the several states, and this has been the source of some uneasiness. When an agency possessing the qualities of leadership and holding such a large measure of good will and confidence does not maintain its ratio of advance, the retarding influence must be found and removed.

Fewer Restrictions

THIS search the National Bank Division has pursued. Obviously the relinquishment of national charters was not because of any lack of public confidence or banker confidence in the system. Nor was it due to any superior qualities or greater public appeal of state systems of banking. Rather the defections were found to be due to a number of reasons among which was the belief that certain statutory and regulatory restrictions place upon national banks limitations somewhat more acute than are either necessary or desirable. But in the face of this charge commendation of the system generally was voiced by many bankers who had withdrawn from it. They praised its structure, they approved its standards, its management, and its traditions, but they felt that their particular types of business received more encouragement under state laws.

Thus an underlying, strong favor for the national system is practically nullified by the availability of a charter hedged about with fewer restraints, and so it is evident that to enable the national banking system to regain and maintain its former position of influence some changes must be made, and that they must be in the nature of liberalizations. This is the thought not only of bankers, but also of those charged with the duty of making and administering the laws for national banks. Two Congressional committees recently have given extensive study to the banking business as a whole and more particularly to national banking and to the workings of the Federal Reserve System. Properly they feel a responsibility for these two institutions and are determined that they shall not fail in usefulness.

Specific Proposals

JUST what changes they will propose have not been disclosed. There is no thought that they should embrace everything found in the banking statutes of the forty-eight states, and neither is it desirable that they should. However, there are some amendments which the Division feels would add to the attractiveness of national charters without sacrificing essential safeguards. It has suggested a number of such changes. They include:

Changes in computing the reserves required to be carried.

A proposal of optional Federal Reserve membership for national banks with capital of less than $50,000.

An appeal for the continuation of the circulation privilege now enjoyed by national banks, and the investment of additional Government bonds with the eligibility to secure national bank notes.

The suggestion that with certain limitations on the amount of the investment a national bank be permitted to own 66⅔ per cent or more of the stock of a securities or an investment company or a trust company.

An amendment by which the grant of a national charter would carry with it also a bestowal of trust powers, with certain limitations as to capital requirements.

Affiliates

THERE are several other proposals, too, some of them touching other features of banking, and among them is a statement of approval of the suggestion that the Comptroller of the Currency be given authority to examine all companies and corporations directly or indirectly affiliated with national banks. This, the Division feels, would cure some of the ills which perhaps have developed through the creation of affiliates, which, in their entirety, are in disfavor with some lawmakers. Unquestionably, the advantages which such forms of organization take far outweigh the few evils which may have crept in, and it is desirable that the system be preserved.

Still another element which seemed to militate against the retention of national charters was the uncertainty over the succession of trust powers and appointments in the consolidation of banks. Interpretation of the statutes in some states, and legislation in others, have clarified this somewhat. Acting through the state associations of bankers, the Division appealed to the legislatures of a number of states to amend their laws to make certain the automatic transfer of powers to the consolidated banks. The state associations succeeded in having a number of bills introduced and in securing their passage in twelve states. This removes the doubt that the powers will be lodged satisfactorily in the surviving banks, and the Division is grateful to the several state associations for their splendid work. Similar amendments are expected to be urged next winter in such states as have legislative sessions then. All of these matters are a part of our legislative program, and will be followed as opportunity permits. The attitude of the Association on branch banking as expressed by

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Banks Need More Complete Data About Borrowers

By GUY P. MILLER
Searle, Miller & Company, New York City.

The Best Way Bankers Can Prepare for the Day When Business Again Turns Upward Is by Acquiring More Intimate Knowledge of Their Customers' Business Affairs. Industries Will Come to the Banks for Funds Instead of Selling Securities to the Public.

NATIONAL banks alone are charging off annually an average of more than $100,000,000 or approximately 10 per cent of the interest received on their loans and discounts, or the equivalent of 5 per cent on over $2,000,000,000 of their total loans. This fact ought to be a complete answer to the charge, more commonly heard today than in times past, that the banker is a cold blooded, hard headed individual with ice water in his veins instead of blood.

Kindness Can Be Expensive

THE reverse is usually the case. There are altogether too many loans made from the heart instead of the head, proving that the banker is just as human and sympathetic as anyone else. Mistaken kindness has ruined many a bank and many an individual.

As late as 1929, thousands of borrowers saw their collateral shrink to less than the value of their loans, recover in the spring of 1930 to more than the amount of their loans, and since that time shrink again to smaller proportions than before. Many have lost their homes and their life insurance. Many more will make sacrifices for years to come to pay for their folly. In many cases the banks will take substantial losses which were avoidable.

What is true of the individual is true of the corporation in many cases. Small losses have run into large losses due to lack of a definite policy and lack of control. Is it not evident that banks today have an opportunity, by more application to their loan problems, eventually to reduce losses and better the community?

Getting down to particular cases, one might examine the procedure which has existed and which still exists, generally speaking, in relation to making an industrial loan. The procedure varies greatly with conditions and circumstances, and too often too much is taken for granted.

Get the Facts

AT times like these bankers should make a thorough study of the condition and prospects of industrial borrowers. It is not enough, says this writer, to depend on an auditor's report because it is the borrower who hires the auditor and tells him what kind of an audit to prepare. The banker's duty is to insist on getting a more comprehensive report on every phase of a business that might influence in any way the borrower's ability to repay.

Loans to corporations are of two classes, secured and unsecured, but the end is usually the same. Many supposedly secured loans turn out to be insufficiently secured, and many unsecured loans result in severe losses which might have been avoided. In the case of secured loans it is expected, of course, that the banker looks into the value of the security and provides himself with ample protection. Even so, he is often mistaken. Consider a common example. When the stock exchange collateral back of a manufacturer's loan at the bank shrank, he put up a large amount of the capital stock of his own corporation as additional collateral. The bank accepted this stock at the owner's estimated value, some $500 a share, the latter stating that he had been offered considerably more for a controlling interest.

Worth Only $150

WHEN difficulties forced the company to reorganize, full investigation and impartial appraisal disclosed that the value of the stock held by the bank was less than $150 a share. Moreover, through loans on the company's stock to various officers and directors, as well as to stockholders among the public, the bank found it actually held control of the company, purchased at a cost greatly in excess of the value of the stock.

Almost every banker knows of a case or two in his own bank. Whose fault was it? How did it happen?

In the case of unsecured loans, the reputation of the borrowing company and its financial statement are the normal bases for such loans. In these cases all too often the banker's judgment proves unsound because he makes the loan from his desk, takes the borrower's word, or is satisfied with the routine report of his credit department, the net result being lack of all of the facts.

Many banks maintain credit departments with elaborate systems of obtaining and analyzing credit information, including questionnaires to be filled out by the borrower. Seldom, however, does the credit man of a bank have a position of importance corresponding to that of the credit man of a manufacturer. In a manufacturing establishment the only orders from customers which are accepted are those which have been approved by the credit manager. The responsibility for the loss ratio is almost wholly his. In a bank, however, in too many cases the credit man's superior officers actually make the decisions. Again, the banker as a disburser of credit has become accustomed to have his customers come to him, whereas the manufacturer is

obliged to seek his customers. To be sure the larger banks have men out soliciting accounts; but too often these solicitors lack a real knowledge of the customer's business which would be helpful to both parties.

The credit manager of a manufacturing company was asked by a distant customer for a 90-day extension. As the item was a large one, the credit man took a train and personally investigated. He found the customer's business short of funds because the management had exhausted its working capital in buying out another business. Checking with the manufacturer's bank, the credit man found that the company owed the bank $150,000, but that the bank had no suspicion of the borrower's straitened financial condition. The borrower had not consulted his bank before buying out the other firm, and the bank had not gone back of the borrower's routine financial statements, nor had ever visited or inspected the borrower's plant. The bank lost more than $100,000; the manufacturing company lost nothing.

Apart from protecting its own interests, every bank should remember that poor judgment on credit risks may have a serious bearing on the interests and prosperity of the community. Many an industry which might have been saved for the community through the influence of the banker has been lost due to the fact that the vital facts concerning the borrower's business were not in possession of the banker. To cite one more specific example: an old manufacturing company with great pride in a long, unbroken dividend record yielded to the pressure of a small group of absentee stockholders primarily interested in income and met demands for dividends at the cost of letting equipment grow obsolete.

Finally the company found itself not only unable to pay a dividend, but also without sufficient working capital to weather the depression period or modernize equipment so as to be in a position to compete when business revived. In its entire history, this company had used only one bank. A natural result was that the bank held a large amount of the firm's stock as collateral for loans to officers and directors. The problem was: should the bank, out of loyalty to an old-time customer, extend additional credit and thus perhaps send good money after bad; or should the bank call its loan and throw the firm into bankruptcy and forced sale to competitors, who might move the plant away and thus throw hundreds of employees out of work?

A large manufacturing corporation in the middle west had a line of credit at one of the big New York banks. The corporation sent on notes amounting to $300,000 for discount. A senior officer of the bank called their treasurer on the telephone to make some inquiries. The president made favorable replies to the banker's inquiries concerning the status of the business. The notes were accepted for discount. Exactly twenty-one days later a receiver's application was filed. Subsequently it was discovered that the company had a policy termed "continuous credit." This consisted of an agreement with the dealers that if they would meet certain sales requirements, one-half of the original order need not be paid for so long as the contract existed. This was the corporation's method of keeping the business. These continuous credit items amounted to hundreds of thousands of dollars and were included in accounts receivable. The bank knew nothing about this practice and paid dearly.

Why has the banker hesitated about obtaining this type of vital facts? It cannot be because he has not realized the necessity of having them. His failure must largely arise from the mistaken idea that he can better afford to take a chance than possibly to offend the customer and drive him to the bank down the street. This attitude is one cause of the competition between banks for loans which often turn out to be bad loans.

Facts Concealed from Banks

TOO much money has been risked upon the borrower's reputation and financial statement. Too many times the financial statement and profit and loss statement fail to reveal the essential facts, which can only be brought out by an investigation at the borrower's place of business.

Who would think of taking an active interest, including financial participation in a business, simply from a study of balance sheets and profit and loss statements? We would want to weigh the good and bad features, the advantages and disadvantages; to know whether the business was progressing or slipping; its history; the character of the management; the quality of and demand for the product; the profitable and unprofitable lines; the class of customers; the bad debt experience; the turnover; the depreciation policy; if earnings had been understated or overstated; the suitability of the plant; and many other important facts. In other words, we would want the general picture without unnecessary or confusing details. Many balance sheets do not disclose the actual situation due to hidden assets or undisclosed liabilities, and many factors must be taken into consideration in making the necessary adjustments.

Having regular audit reports from a borrowing customer would seem, at first glance, an easy way to get the full credit facts. However, considerable criticism of auditors' statement has been made by bankers, and we must admit that a good deal of it is merited. The quality of the auditors' report depends largely on the program of audit and the character of supervision, which in turn rests upon the experience of the man in charge. The auditor's work is largely one of verification. His report is made to fit his client's purposes, and the work is done with the greatest economy of time and money possible. The auditor does not call attention to facts about the client's business which are outside of the scope of the audit or which his client presumably knows.

For the Client to Say

IF the banker wants a different kind of report than he is getting, he must insist that the borrower furnish it. The auditor sells his services to his client and the program of audit depends upon the client's requirements. The audit may be a balance sheet audit, a semi-detail audit or a detail audit, depending upon the recommendation of the auditor and the decision of the client. But whatever type of audit is made, the auditor cannot introduce into the report information which he knows would be useful to the banker, but which would certainly raise an objection on the part of the client.

For example, the auditor's report may state that he has verified the cash. But he does not as a rule state how much is on deposit in each of the banks where accounts are carried, and what has been the average balance for the year in each bank. This would be very valuable information for the banker, as he then could compare balances in other banks with the balance maintained in his own bank in connection with services rendered and loans granted, and discover whether or not he had been given due consideration.

When a loan becomes sick, it is extremely difficult to determine whether to risk an additional loan or to face a loss on the original loan. A wise decision can only be made by getting all of the available facts—by getting back of the financial statement and into the borrower's place of business.

Before making a loan to a manufac-

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Banking's Best Course Hereafter

By EUGENE M. STEVENS
Chairman, Federal Reserve Bank of Chicago

America Seems to Be Passing from an Era of Rapid Development of Resources into a Period of Consolidation and Refinement of Processes. Banks Must Adapt Themselves to New Conditions. Have Some Departed Too Far from the Primary Functions?

WHATEVER history may record of the generation in which we live and whatever its verdict may be as to the balance between our mistakes and our achievements, it cannot say that this period was without great significance or interest. The record of this extraordinary time will have much to do in determining the course of future events, and to those who are now living, it has been of absorbing interest.

Even during the last five years, beginning eight years after the close of the war, the economic and social life of our country and of our people has experienced violent extremes of inflation and deflation, of excessive optimism and of equally excessive depression. During the first three of these years, we accumulated a state of economic intoxication which rendered us as a people incapable of sober thought. In the last two years, we have been slowly awakening to the dire consequences of that orgy of faulty conceptions.

Readjustment

IN the process of our gradual return to a saner state of mind, there has been forced upon us the necessity of facing facts squarely and of engaging in some fundamental thinking. Not for many years has the average man given so much thoughtful study, not only to his own problems, but to those of society as a whole. If this is a time for serious thinking, it is a time for plain speaking as well.

It was inevitable that the events of these last years should have led to attacks on the banking system, which is variously accused of granting credit too freely, of withhholding credit when needed, of failing to prevent the world crisis, and of general responsibility in some vague fashion for present conditions. The attack on the capitalistic system, which times of depression always foster, has very naturally been focused on the banks.

It would be futile to say that we in the business of banking have wholly escaped the intoxication of inflation or its disastrous results. Neither can we escape our share of responsibility for what has happened. Inflation in prices and in volume could not have occurred if the credit which made it possible had not been furnished, and which was based on what have since proved to be false values and expectations.

Nevertheless, we know that the facts are that the large majority of the banks have stood firm, have been conservative in their counsels, and have been willing and able to extend credit where such credit was justified. We know also that the large majority of the banks which have closed their doors had no proper place in the existing banking system and many of them should never have been chartered.

We know that the banks generally have labored earnestly to prevent trouble and by the courageous use of their funds and their influence have prevented business failures in innumerable instances of which the public is not aware. Unfortunately, the public learns of the failures, but not of the rescues; it hears of the deaths, but not of the cures.

First Principles

NEVERTHELESS, the time may be opportune for us to re-examine carefully the policies and conduct of our banking institutions, particularly as to the fundamental functions for which they were organized, and to determine whether or not we individually are adhering in policy and in practice to sound banking principles.

The word "function" is defined as "a natural and proper action." In my opinion, most of the economic troubles which the world is now heir to can be traced to interference with the natural and proper actions of trade and of finance by artificial regulations of political and governmental bodies. Thus, we have half of the world suffering from an oversupply of goods and the other half of the world suffering from a want of these goods, with artificial barriers set up between them which make it impossible for supply and demand to meet.

However, one of the causes of the extremes of inflationary and false prosperity has been that individual business has yielded too much to the temptation to depart from its natural and proper action. On the other hand, in the extremes of depression, which inevitably result from the fictitious prosperity thus created, business and finance have been forced to depart from the natural and orderly conduct of their affairs.

The primary functions of a commercial bank are to receive deposits and to grant credits. A commercial bank is a kind of a clearing house through which those individuals who are temporarily in possession of surplus funds may lend their funds to others who are temporarily in position to use funds in excess of their own.

Depositors Come First

THE bank's first responsibility is to its depositors, those who have left their funds with it on the distinct pledge that they may withdraw them promptly and without question when they so desire. The banker, in lending the funds of his depositors, must never under any circumstances lose sight of this obligation. He must not forget that it is the money of a depositor which he is lending to a borrower. An individual depositor, if he expected to need his funds in a short time, would scarcely lend them to his neighbor for the purpose of buying a home for which he could not expect to repay the lender for a period of years. I am aware that the law of averages applies in the length of time of the average total deposits and therefore may warrant some departure from self-liquidating and early-maturing loans, but the experiences of the last few years have upset some of our preconceived ideas of such averages, and have developed many instances in which banks were unable to meet their deposit demands through their inability to realize on long-term loans.

The theoretical credit function of a commercial bank is to furnish the temporary capital for the movement of goods between the producer and the consumer, and from the stage of raw material to that of finished products. This means in industry to furnish the manufacturer with funds to buy his raw materials and pay his labor pending the sale and payment for his goods by the merchant. It means for the merchant the borrowing of temporary working capital between the time of his purchase and payment of goods and their sale and payment by the consumer. It means to the farmer a temporary loan for his necessary expenses in producing the crop until it is matured and sold.

Off the Beaten Path

THE exigencies of trade and commerce, the extraordinary development of the securities markets and the necessities of temporary loans for construction purposes pending permanent financing, have made necessary some departure from this fundamental basis of loans between the producer and the consumer, but in endeavoring to meet changing conditions, it may be that the tendency in some commercial banks has been to depart too far from their primary functions.

I refer especially to the inherent difference between commodity and trade financing as against capital financing. These are two distinct functions and represent the difference between commercial and investment banking. Many commercial banks engage in the bond business either directly or through subsidiaries, but there is a great difference between being sellers of capital credit and lenders thereof. I do not mean to go so far as to suggest that commercial banks should not carry in their own assets a certain percentage of bonds, which are a form of capital credit. However, I do believe that they should restrict such purchases to the highest grades of bonds which have ready marketability, and preferably those of short maturities, in order that they may have a certain percentage of them running off periodically, and also because in declining markets the short maturities do not suffer in price as do the long ones.

Any reference to capital financing raises the very pertinent question of real estate financing, loans based on mortgages or real estate equities, and of their place in the commercial banking system. These last years have demonstrated that many of such loans have been about the most unliquid asset which a bank could carry, and also that the safety of the principal itself has frequently suffered in the declining value of the security behind it. In this time of serious business depression, real estate values, both in the cities and on the farms, appear to have been about the first to suffer and may be about the last to recover. The extraordinary amount of distress lands and real estate which depressed conditions develop make for slow recovery in values, even after other assets may have shown substantial improvement and trade and commerce have resumed their more normal courses. A large proportion, indeed I venture to say a large majority, of the bank failures in the last ten years may be directly traceable to their investments of this character, because of default in interest, shrinkage in the value of the security as principal, and inability to realize thereon when liquidity was most needed. Indeed, the situation in real estate values may be said to be one of the vital factors in the present depression.

Other Agencies Needed

OUT of these experiences, is it not obvious that the banking system has been carrying far too large a proportion of the burden of the country's real estate financing, and that henceforth other agencies must be depended on to take over this load? Perhaps new agencies will have to be established in addition to the insurance companies, the building and loan associations, the private investor markets and others already existing, such new agencies to be organized in a manner to issue their own long-term obligations against these long-term capital credits.

Has it not been demonstrated that demand and short-term deposits in banks should be invested only in a very limited degree in these types of long-term capital loans, which, when the need is greatest, are the least available to meet the banks' short obligations? Is it logical for a bank to assume demand obligations, to meet which it holds assets of long maturity and at best of doubtful liquidity?

If it is essential, therefore, that commercial banks should offset their demand and short-time obligations with self-liquidating commodity and commercial assets and should leave the long-time loans to the investment banking field, where they theoretically belong; if the banks should engage only in commodity and trade financing, or to the limited extent in which they invest in capital loans, such as bonds and real estate securities, which should be restricted to those of only the most marketable character; and if capital financing otherwise should be provided from the long-time investment field, the query arises as to where under present conditions the bank, whether urban or rural, may find a sufficient outlet for the employment of its deposits.

This is no idle question and the striking changes in our financial structure during the last ten or fifteen years have made it very difficult to answer.

New Fashions in Finance

THE corporation which formerly borrowed seasonally from its bank on its commodities has in numerous instances financed itself permanently by the sale of its stocks and bonds to an eager public during these years of increasing individual wealth seeking investment. That corporation no longer borrows from its bank, thereby giving the bank eligible and liquid paper—it is more likely at certain seasons of its year to be competing with the bank as a lender of money. Some of our great corporations, who thus have financed themselves publicly on the basis of an inflated prosperity in capacity, in volume, and in prices of commodities, may now find themselves in possession of working capital substantially in excess of their normal needs, and thus they are engaging to some extent in the banking business as lenders of money, a purpose for which they were not constituted and for which their stockholders did not make their investments. The amount of call loans on the New York Stock Exchange for others than banks in 1929 reached the enormous sum of $3,825,000,000, and a substantial portion of this came from the corporations.

It might not be amiss for some of them to consider the redistribution of a part of this excess working cash capital in special dividends to their stockholders, who probably need it more than the corporation does, to pay their individual debts accrued in buying the stock or to be used for the purchase of goods they require. Or, possibly, such a corporation might wisely use some of this excess cash capital in buying back from the open market some of its own stock and retiring it, not without benefit to itself, its stockholders, and the markets.

Again, the marked tendency toward concentration of industry into large units has diverted the borrowings of the plant in the smaller cities from the local bank to the corporation's metropolitan banking connections. Centralization in industrial control

has led to centralization in banking accommodations.

Increasing Competition

FURTHERMORE, there has been a marked increase in the competitive credit facilities outside of the banking system, such as the installment finance companies engaging in the business of credit direct to the consumer, whose credit needs for the necessary purchase of goods were formerly cared for by his local bank.

By reason of all the various credit agencies, some of them new in their importance, it is obvious that a vast amount of the credit structure of the country is entirely outside the direct control of the banking system, and that surplus credit has had much to do with the inflation which we experienced.

I am not forgetting the obligation of the bank to the community which it serves. There is such a demand and it often takes the form of housing loans in the cities, of mortgage loans on the farms, of loans on the securities of local industries, and other forms of capital financing. Notwithstanding this obligation, the commercial banker, in my opinion, must be cautious not to overextend himself in using his deposits for such loans, never losing sight of the demand character of such deposits. He may better use his influence in seeking to encourage other agencies organized for the particular purpose of granting capital credits against their own long-time obligations.

I am aware that I have not answered the difficult question as to what the commercial bank may find as an investment for its surplus funds. I have referred to commodity loans between producer and consumer as the primary credit function of the commercial bank. Under present conditions, the demand for loans strictly of this character is frequently not sufficient to employ all of the bank's loaning power. I have intimated that it may have to take on a restricted amount of certain types of capital loans, in the nature of bonds and mortgages, providing they possess reasonable elements of marketability and liquidity. The public investment in corporate securities, to which I have alluded, and the consequent lack of commodity paper, seems to make it necessary for banks to make loans with securities of this class as collateral, but, again, this should be done warily and with a view to the availability of such loans under emergency conditions. By their nature, they cannot be eligible for rediscount at the Federal reserve banks, and the same emergency which demands their payment often makes the calling of them dangerous to the general situation.

A very substantial field of investment is afforded by the United States Government securities, which not only have ready markets, but which, under the Federal Reserve Act, may be used by member banks of the System as collateral to loans with the Federal reserve banks and therefore have excellent liquidity as a secondary reserve. The amount of commercial paper available from brokers is limited and has been decreasing in volume for the same reasons that this character of paper is lessening in the banks' loans to their own customers. There is a growing market in banker acceptances, which are directly a form of commodity financing, and eligible and liquid, and many of the larger banks presently have substantial amounts of such acceptances in their portfolios. All secondary assets of this character should be considered with relation to their eligibility with the Federal reserve banks or their availability as collateral with correspondent banks.

The objection that assets of the character which have been mentioned yield but low returns in interest, must be met with the assertion that, in so far as this may not be offset by lower rates of interest paid on deposits by increased service charges, and reduced operating costs, a bank cannot afford to sacrifice safety for earning power.

Changing Conditions

IN view of all these changing conditions, it is very difficult to predict what the future may hold and just how the further development of the credit structure of the country will react on the commercial banker in respect to the investment of his assets in a manner to insure both safety and ready availability to meet his obligations. At this particular time, the clouds are still in the sky, but we know that beyond them the sun is still shining and that some good day we will see it again. In the meantime, as we look ahead through the haze, we may discern certain things in a dim way, some of which prove to be real and some only mirages.

The elimination of a large number of banks all over the country in the last ten years should operate to make the remaining banks stronger and more profitable. We have had in many places an overcapacity in banking in the sense of too many banks, as in everything else, and a lesser number of commercial banks should find in normal times that they will be able to get a larger proportion of the class of assets which come within their primary function.

New Kind of Progress

AN English visitor recently asked me if foreign investors in American securities could look forward to as much progress in the United States in the next twenty years as has developed in the last twenty years. My answer was "Yes, but progress of a different nature." I said that much had been done in the last twenty years to develop the latent resources of the country and that the time was approaching when that factor, which has been so important during all the history of this country, would be well realized. That meant that we have been for many years in the period of growth and development, and that this period would not continue indefinitely, and the question was even now as to whether we had not reached the state of overcapacity in some of our industrial and agricultural life. Furthermore, with the restriction of immigration and the declining birth rate, we could not expect the same rate of population increase to continue. I therefore concluded that the next twenty years would not be so much a period of progress in construction as one of progress in the consolidation and refinement of our processes. In the amazing history of our country's development of its great resources, we have necessarily been building rapidly and not altogether with proper order and efficiency in relation to production and distribution, and there is much that remains to be done in the ensuing years properly to conserve and consolidate to get the best results out of the construction already accomplished.

It is possible, therefore, that the ensuing years may see relatively less of capital construction and financing and more demand for the type of credit which banks can properly supply, as we proceed in the process of making the most out of our present facilities.

But beyond this there is a vision that comes through the clouds. The striking progress made within our generation in transportation and communication has brought the whole world together as never before and has opened the way for tremendous progress in trade. If the world should become wise enough to get over its false nationalistic conceptions and its ideas of national self-sufficiency, which have been increasingly evident since the Versailles Treaty, and to tear down all sorts of barriers which have been

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A Word to National Banks

By FRANK P. BENNETT, JR.
Editor, United States Investor, Boston, Mass.

The Country Can Not Afford To Let the National Banking System Disappear. Reasons for the Trend in Recent Years Toward State Charters Are Found in the Requirements with Reference to Reserve System and Various Restrictive Regulations.

EVER since the first national bank was created in 1864, the National Bank Act has instructed the Comptroller of the Currency to call the attention of Congress every year to the condition of the national banks and to "such other information in relation to said associations as, in his judgment, may be useful." In the years that have followed, the act has been amended many times, but the only change Congress has ever made in this provision is to move it forward from a place near the end of the act to a place of outstanding prominence among the very first paragraphs.

Faults and Remedies

UNDER these circumstances, it is not strange that Comptrollers have come to regard this language as a mandate of real importance. They believe it directs them to have a heart-to-heart talk with Congress in each annual report on the prospects of the national banks—a sort of family conference concerning the dangers that threaten national banking and the ways in which the system can be preserved and strengthened. Nor is it strange that, under this mandate, every Comptroller, for the past several years, has expressed concern over the steady thinning of the ranks and the decline in relative importance of the national bank system.

Well may the official, placed on the watch tower by Congress to discover and report any serious threats to the future of national banking, express genuine alarm over what he sees. The figures alone, showing less than 40 per cent of the bank resources of the country in national banks today, as against 75 per cent of 1886 and 46 per cent no more than five years ago, are a sufficient reason for dismay. The fact that every force which has been gnawing away at the national bank system in recent years is still at work, unchecked and in no immediate likelihood of being checked, adds to this dismay a cause for anxiety lest we shall find ourselves quite without any banks of this type, which represent the highest standards of banking, and furnish the nation with its only guaranty that the Federal Reserve System is here to stay.

Anyone who has studied this decline of the national bank system in relative importance will have noticed that in recent years a new and more disturbing factor has been pulling down the numbers and sapping the influence of the national bank system. At first, a Comptroller could find some solace in the fact that the growth of the state banks was not directly at the expense of the national bank system. State banking systems at that time were not enticing any great number of national banks away from their Federal moorings. The growth of state banks in numbers and resources represented for the most part the creation of entirely new trust companies or state banks who found room for their facilities because they operated in a growing country. In those days, too, the state banks had limited ambitions. They were quite willing that membership in clearing houses and that most of the reserve agency functions should be left to the national banks as an exclusive right. State banks themselves chose national banks in those days for their own reserve agents, except on rare occasions.

A New Trend

MORE recently, however, Comptrollers have been without this solace. There has developed a distinct thinning of national bank ranks. State charters have enticed many a bank away from Federal ties. Conversions of national banks into trust companies and state banks are now a familiar occurrence. The movement has been confined to no section of the country nor to any particular variety of national banks. The small national bank which finds Federal reserve membership a burden, the bank in the larger center which has broad ambitions along departmental lines, and even the metropolitan bank which handles large sums as reserves for other banks, have been swept along in this new tide. Many of them have been historic institutions, firmly intrenched in the confidence of their city or even of the entire country. Meantime, the trust company has become an equal or even a dominant member in clearing houses, and there is no line that it leaves unchallenged to the national banks except the minor privilege of issuing circulating notes.

Threatening Tendencies

ALMOST as threatening to the future of national banking as the conversions already completed, are those cases, coming so frequently to light, of national banks poised on the very brink of conversion. I refer to those banks which are printing the word, "national" in smaller type, wherever their name appears in advertising or on their windows, and are emphasizing the other parts of their names, presumably because these parts will still figure in their official titles, if they shall presently become trust companies or state banks. They are prepared for either event, a plunge off the brink into a state banking system, if conversion shall presently seem worth while, or a permanent relation with the national system, if acts of Congress or some other considerations shall make that the wiser course.

One does not have to be advanced in years to recall a period when neither the New York, the Chicago, the Detroit nor the Cleveland clearing-house contained even a single trust company member. There appeared to be widespread belief among bankers in those days that national banks should furnish all of the membership for clearing houses, perhaps because these are the organizations that mold banking thought, make rules for banking conduct, and in times of crisis take full command of local financial situations. Apparently the state bank of those days bowed its head to a current popular belief that for the bed-rock strength, and for ability to handle critical situations, no other type of bank was quite equal to that which

obtained its charter direct from the nation iself. That belief of other days no longer exists. In every one of these four important centers trust company members now outnumber the membership of national banks and any serious local situation is dealt with quite as often by committees headed by trust company presidents as by committees headed by national bank men.

Since banking opinion in America usually takes shape first in metropolitan centers, with clearing house members formulating the general principles at least, and then spreads out through the country at large, it is a perfectly accurate statement that the molding of public opinion on banking subjects is no longer dominated by those who regard national banks as the essential back-bone of American banking. There is a condition more thought-provoking as to its possibilities than any array of figures which Comptrollers have cited.

Finally, we must not overlook the effect on public opinion of the arguments by which converting national banks have justified their course. The reason generally emphasized, in the statements which they have handed to the press and have circulated among their depositors, is that they wish to give the community a larger service. The expression is as broad in what it implies as it is indefinite concerning the exact benefits which the community is to receive. This argument, reinforced so frequently by the fact that it is a bank of large prestige and exemplary record, which is quitting the national system, drives one almost relentlessly to a single conclusion.

A Duty?

IF the standards of the National Bank Act and of national bank supervision are not essential to good banking, and if instead the standards of the states are quite sufficient, as the conversion of such a bank seems to prove, and if it be true that broader and therefore presumably better service can be given the community under state charter, (as so good a bank alleges) then no bank has a right to remain in business under the National Bank Act. Its plain duty to its community is to acquire these broader privileges of service through conversion into trust company or state bank. The modern belief, driven home with monotonous insistence by rotary clubs and national advertisers, is that the right of an individual or of a corporation to live is measured by the service it gives to its community.

What right has the national bank system to continue if it stands so squarely for a restricted service that progressive and historic banks have had to quit the system in order to carry out their conception of duty to the community? To be brutally frank with ourselves, not as national bankers, but as men who have quite as keen anxiety to render service as any business men can have, has the time come for national banking to pass into history, because something better has come to take its place?

Reason for Loyalty

CURIOUSLY enough, however, we find considerable reason for continued loyalty to the national bank system in these same public statements of the converting banks. Without raising question as to how much real warrant any of these banks has for declaring that its change of charter will bring measurable benefits to the community, one may at least venture to praise one bit of negative honesty discoverable in nearly all of these statements. Not one converting bank, so far as I can recall, has ever declared that funds of depositors will be made more secure or will be brought under more painstaking and more capable government supervision, when the former national bank shakes off the husks of national banking and stands forth as a brand new trust company. The almost unanimous silence of converting banks on this point does credit to their love for the truth. It also constitutes more emphatic testimony, as to the high standards of safety and of government examination set by the national bank system, than whole columns of figures, or whole volumes comparing state laws with the National Bank Act could provide. Thus, almost every conversion has, in effect, paid tribute to the really high quality of national banking.

There is also a surprising unanimity in the attitude of the larger converting banks toward the Federal Reserve System. Not only do they elect to continue as members of that system but they almost never fail to assure the public in their statements that they mean not to quit that connection. Clearly they entertain no doubt whatever that it is somebody's duty to provide this country with an effective sort of unified banking. Some group of banks must support an organization that will mobilize bank reserves, make these reserves flexible through sound issues of paper money, and give the depositors of this country a never-failing reservoir of funds, if we are to be protected in critical seasons from business and financial catastrophes. Of course the converting banks are right in testifying to the essential need of such an organization, and in assuring the public that they will do their part for its support. Everybody who has had even a fragmentary training in banking history knows that we simply cannot return to correspondent banking as our method of handling bank reserves. No country except our own ever did dare to experiment with any such substitute for centralized banking, and our own fair trial of it had such disastrous consequences that never since 1907 has any political party been willing to advocate it.

Here we have a condition that raises the whole problem of the future of national banking to a very high level. Even if individual banks are more comfortable under state charter, and even if we concede, for the sake of argument, that state banks can extend some vaguely described broader services to the community, the fact remains, and the statements of the larger converting banks bear almost unanimous testimony to this effect, that the banks of the country have a duty to provide a Federal Reserve System. A sufficiently large number of banks must be tied together at all times in Federal reserve membership to give this system an effective control of the bank reserves of the country. Lacking such numerous membership and such ties, the Federal Reserve System will become unable to care for our financial and banking needs, and we shall be in a sorry plight indeed.

Backbone of Reserve System

THE truth is that as a country we simply cannot afford to let the national banks go. We must retain them as the only system offering to depositors in every corner of America, even in states where local laws and supervision are lax, a chance to bank under the highest possible standards of law and supervision, and also as the group supplying the Federal Reserve System with its very backbone. The reserve system must become of minor worth, if the present trend to denationalize is not stayed.

What, then, are the steps that will assure the future of national banking? Nobody can suggest any specific amendments for the National Bank Act beyond those already urged by the Comptroller of the Currency and the National Bank Research Committee. If it were only possible to get the case of the national banks before that fair-minded jury, the American people, how they would react against some of the genuine injustices from which national banks are suffering!

Consider this catalogue of wrongs.

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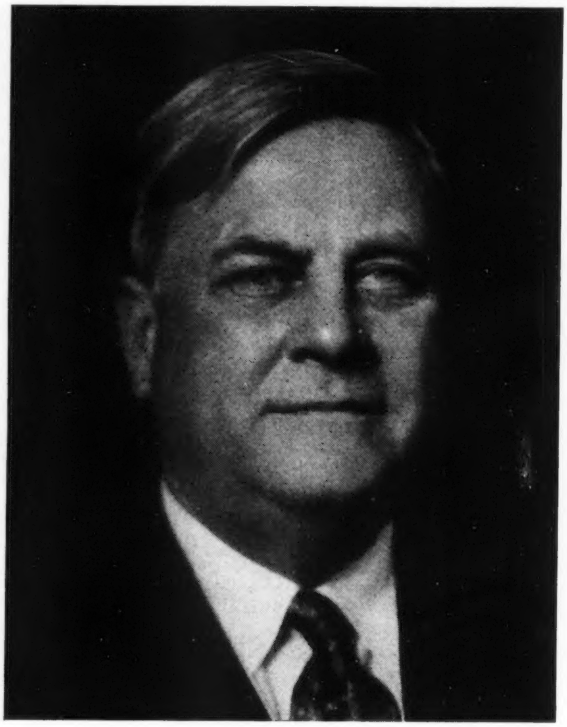
The Trust Division

Next Twelve Months Will See Further Progress in Extending Service and Benefits of Fiduciary Institutions. Plans Are Made and the Work Already Started. Action Is in Prospect Looking Toward Effective Solution of Investment and Other Problems.

THREE outstanding tenets of trust work—high ethics, public service and sound investments—were discussed by speakers at the Trust Division meeting in Atlantic City. The first was the theme of a keenly analytical address by Gilbert T. Stephenson; the manifold problems of investment were described by Frederick H. Ecker; J. Stewart Baker explained the fundamental relationship existing between trust companies and the public. Trust men who heard these addresses derived valuable counsel and received a thoroughly optimistic perspective on their business for the coming year.



Thomas C. Hennings,
Vice-President, Mercantile-Commerce Bank & Trust Co., St. Louis, Incoming President, Trust Division

Insurance Trusts

MR. ECKER who, as head of the Metropolitan Life Insurance Company, supervises the handling of reserves in excess of $3,000,000,000, introduced his remarks with a brief reference to insurance trusts and to certain points of similarity and difference between insurance and trust companies. "The insurance trust bulletin for January, 1931," he said, "contained a symposium of expressions by life insurance company executives on the subject of insurance trusts. I think it is not out of place to quote here the views then expressed on behalf of my company:

" 'This company has recognized the value of close cooperation between trust departments of banks and the life insurance companies in promoting a wider use of the insurance trust in cases where it is appropriate.

" 'Our own service to beneficiaries under life insurance policies may well be supplemented by the use of the insurance trust by policyholders, in those cases in which the options of settlement contained in our policies will not meet the desire of the insured to provide for the exercise of discretion regarding the disposition of proceeds. In other words, where the insured desires that the proceeds of insurance be disbursed, not upon a fixed and definite plan, but as the circumstances of the beneficiary may require, an insurance trust with appropriate provision as to investment of the funds may best meet his needs, and a reputable local trust company, through its trust officers is best qualified, by its immediate knowledge of the family and local conditions, to exercise such discretion intelligently. The contact which such a relation occasions between the trust officers and the beneficiary will often be of great comfort and assistance to the beneficiary in the solution of financial problems of the family.

" 'Publicity on the subject of insurance trusts has been the means of broadening the viewpoints of insurance agents, insurance executives, attorneys and trust officers, so that today, all of us are better equipped to render sound advice to an individual who is desirous of making the best possible provision for his family in case of his death.' " He said that, legally, the obligations of trust companies sprang from trust agreements and the consequent trust relationship, while the obligations of insurance companies rose out of contracts. He quoted Chief Justice Hughes of the United States Supreme Court as saying: "While the insurance company is not technically a trustee, it is practically the highest form of trusteeship." Mr. Ecker's address appears elsewhere in the JOURNAL.

A National Asset

THE address of Gilbert T. Stephenson, as retiring President of the Division, was based in large part on his observations of trust work abroad, chiefly in France, compared with the status of corporate trusteeship in the United States. He was led to the conclusion that the fiduciary idea and its development along corporate lines is a great national asset. The reasons for his conclusions are based more on the cultural profits of trust work than on resources or dividends. The address is published in this issue.

Introducing J. Stewart Baker, Mr. Stephenson said:

"Our trust institutions now sustain a relationship to the general public as well as to their individual patrons that heretofore has been largely unrecognized. Already their policies are materially affecting the economic as well as the personal life of the communities in which they operate. These communities go to make up our nation."

The fact which Mr. Baker set forth with convincing logic was that the public created the trust business. It

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Four By-Products of Trust Work

By GILBERT T. STEPHENSON
Vice-President, Equitable Trust Company, Wilmington, Del., and
Retiring President, Trust Division, American Bankers Association

The Growth of Fiduciary Service in the United States Has Made Important Contributions to the Country's Welfare. It Created Body of Trained Trust Men, Taught Public to Make Wills and Greatly Improved the Quality of Estate Administration.

I HAVE lately returned from a study of the fiduciary laws and practices of France, and it has given me a new appreciation of our trust institutions as a national asset. I do not mean in the least to discount the French method. France and the United States are simply operating under different systems of law and practice.

French Estates

IN France there are no native trust institutions—none at all except American and English banks and trust companies that maintain offices in France mainly to deal with Franco-American and Anglo-French estates. The trust is wholly unused and practically unknown even to the French bench and bar. A large proportion of the people, especially those with children, die intestate. Nearly all of the wills are holographic, even though it is admitted by Frenchmen that this is the most dangerous form of will in the world. In comparatively few of the wills is an executor named. When one is named, his duties are ministerial and his position subordinate. In intestate estates the office of adminstrator is unknown. The heirs wind up and distribute the estate. Probate practice, as we understand it, does not exist. Estates, in which none of the heirs is a minor or incompetent or alien, are frequently settled without any accounting to or through the court. In a word, trust business in the American sense does not exist in France.

There are signs of a growing trust consciousness even in France. A former American life underwriter, who used to write insurance in California but who is now a resident of Paris and a representative of one of the leading French life insurance companies, is undertaking to introduce the life insurance trust into that country. He is encountering both practical and legal difficulties—practical difficulties due to the unfamiliarity of the French banks with trusts and legal difficulties due to restrictive legislation affecting life insurance companies. But the fact that this life underwriter is working on the subject with the approval of his company and that at least one of the French banks is considering the matter I regard as significant. Who knows but that this may be the means of introducing trusts to France!

Impressed by the disadvantages under which a country that does not have trust institutions must labor, I have concluded that there are four respects, at least, in which any conservative appraisal of our trust institutions would give them high rank among our national assets.

The Type of Men

FIRST, our trust institutions have given to America a new profession, that of the trust man. With over 4,000 trust institutions we may figure that we have at least that many men, including an ever increasing number of women, who are actively engaged in the profession of trust men. Besides these 4,000 trust men, who serve in executive capacities and come into contact with the public, there are thousands more engaged in the administrative and operative activities of trust departments many of whom are trust men in the making.

What an asset it must be to our nation to have 4,000 trust men whose main business is to counsel and direct and conduct the settlement of estates and the administration of trusts! What an advantage it must be to any community to have within its borders one or more trained and experienced trust men who are devoting their lives to advising with men and women about the arrangement of their affairs through wills and trusts, helping widows and children with their personal and financial problems, investing and administering estates so that they may serve the purposes for which they are created! Multiply by 4,000 the good that a single capable and conscientious trust man may do in a community in the course of his lifetime, and one will have some conception of the national asset that our trust institutions supply through their trust men.

The trust man is indigenous to common law countries—to the United States, England and the English dominions. The French substitute for the trust man is the notary who is an honored and respected public officer, carefully selected, well trained and especially commissioned by the president of the republic. The notary is at a disadvantage, however, compared with the trust man, in that there are no trusts for him to administer. He has other duties than those connected with estates and in connection with estates his functions are frequently advisory rather than administrative and, besides, he acts as an individual and not as a representative of a responsible financial institution. Even with these disadvantages, the office of the French notary is well worth the study and, in some instances, the emulation of the American trust man.

Public Education

MY second reason for saying that trust institutions are a national asset is that they are educating the American people in the making of wills and trusts that are socially good as well as legally sound. The new business departments of our banks and trust companies deserve to be regarded not only or even principally as departments for securing new trust business but, from the point of view of the public, as the most effective means of reaching, arousing and inducing the American people to consider seriously and to take positive steps to achieve the ultimate purposes for which they are creating estates. Already hundreds of thousands of American widows and children have cause to be grateful to trust institutions for the advertisements and solicitations that influenced their husbands and fathers to make wills and to create trusts under which the estates of these widows and children are

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Insurance Investment Experience

By FREDERICK H. ECKER
President, Metropolitan Life Insurance Company, New York

Portfolios of Life Companies Show Stability in the Face of Wide Declines Recorded in Market Values of Securities and Mortgages During the Depression. Policy Has Been to Minimize and Absorb Losses Through Diversification and Contingency Reserves.

INSURANCE companies and trust companies in their every day activities are engaged in the same general kind of business. Both are essentially trustees. No relationship except the intimate family relation is more sacred than that of a trustee to those in whose behalf he exercises his trust. The source of the trust fund or its manner of creation, may be different as between insurance companies and trust companies. The nature of the instrument under which the fund is being accumulated is essentially different. The manner of the distribution may well be more complex, in many instances, in the case of trust than insurance companies. Fundamentally, however, both types of institution have the same sacred basis, that of the receipt, accumulation and distribution of trust funds.

Wise Investment

ESSENTIALLY, in both cases, between the commencement of the custody and the act of distribution, it is expected that the funds shall be enhanced through the element of interest, by wise investment. In both cases, security of principal is the first consideration, rate of interest being secondary to security. The investment of the life insurance company is restricted to certain categories prescribed by statute. The investment of trust funds may or may not be prescribed by statute, may or may not be prescribed by the instrument under which the trust is created. For this reason there is quite often greater latitude, and certainly as great a responsibility, in the investment of trust company funds under a trust instrument, as in the investment of funds by a life insurance company.

In the final analysis, however, whether under the guidance of a statute, an instrument, or the pure discretion of the trustee, the soundness of the investment depends on the sound judgment of the trustee or the company, exercised by able executives experienced in the business. No law, and no direction by the creator of a fund can eliminate absolutely the risk of loss. Unless currency is to be locked in a safe, like the Biblical talent which was buried in the ground, then it must be put to work through the medium of investment; and no investment, not even at the so-called "riskless rate" of interest, can be absolutely infallible. The institution of life insurance, though, aims to minimize and absorb such losses through the wide distribution of investments and the setting up of contingency reserves, the purpose being to prevent these losses from reducing the payments due under our contracts to beneficiaries.

At the same time, we must differentiate according to the type of service for which the investment is designed. The individual or corporation whose loss, if any, is its own, may accept a wider range of speculative possibilities than may the individual or corporate trustee. In the case of the trustee, at least insofar as life insurance finds itself in that situation, the investment should be of a type where the principal is adequately secured and at all times protected by a subordinate interest of others, in the nature of a secondary lien or proprietary ownership, an interest which may be expressed as a cushion against loss on the part of the primary interest.

Common Stocks

AT the annual convention of the Association of Life Underwriters in Washington on September 26, 1929, I spoke on the subject "The Trend of Life Insurance Investments in the Era of the Second Hundred Billion," referring to the commencement of the period succeeding the first hundred billion dollars of life insurance in force in the United States, which period had just then been reached. On that occasion, I expressed my own judgment along the lines above indicated and gave reasons why I believed that common stocks should not be acceptable securities in which to invest life insurance funds. I differentiated between the sacred character of life insurance funds and the investment by individuals or corporations not charged with such a sacred trust.

Some three weeks after the delivery of that address, an advocate of the purchase of interests in equities as life insurance investments delivered an address before the American Life Convention on the subject "Should the Portfolio of a Life Insurance Company Include Common Stocks?" Urging the admittance of common stocks into the portfolio of life insurance companies, that speaker said: "If you would allow a few of the best applicants in now, learn to choose them, associate with them, learn their habits and companions, I feel sure that you would not in time turn your cold shoulder to them as Mr. Ecker did a month ago! The greatest obstacle is the fact that you do not really know the common stocks which I am asking you to associate with." In view of the personal reference which that speaker made, I have felt it entirely proper to review his address in the light of events developing rather quickly after its date which was Oct. 17, 1929.

Only the Best

IN that address, the speaker listed between forty and fifty common stocks, which I think any experienced investor would characterize as a most select list. Such stocks had either no bonds or practically no funded debt ahead of them. They were the stocks of companies outstanding in the business of the United States. Both before and since the date when that list was presented, these companies, for the most part, have been well managed.

On recently rereading my own address and the other address referred to, I was prompted to secure some figures with relation to the common stocks which had been recommended, by name, in this latter address. The result was significant. The average depreciation in market value of the common stocks contained in this list. between the date of the address in

question and June 30, 1931, some twenty months, was 57 per cent. As an appropriate investment for life insurance funds, I submit that the list advocated by speaker at the American Life Convention on Oct. 17, 1929, has been demonstrated to be unsuitable for the purpose of life insurance. And, considering the exceptionally high class character of those particular common stocks, I submit that this amply demonstrates that this class of securities does not and will not meet the requirements of life insurance. In giving expression to this view, I must not be understood as being opposed to common stocks, as such, nor to the entire appropriateness of that form of investment for certain purposes, but I do assert they are not the type of assets which should be included in the portfolio of a life insurance company.

Sold at a Profit

IN view of the foregoing, it may be asked, what has been the experience with respect to the type of securities generally bought by large mutual life insurance companies during the same period as that reviewed with respect to common stocks. I have not the figures of other large mutual companies, but, in general, the investment policy of such companies is much like our own, and I have secured some figures relating to our own investment account.

On Dec. 31, 1929, a date convenient for the compilation which I have in mind, our company had in its portfolio some 1,300 separate items of bonds and preferred and guaranteed stocks, the latter within the prescription of the so-called Wales Act of New York. The market value of these assets on Dec. 31, 1929, was approximately $1,200,000,000. Between that date and June 30, 1931, there matured or were sold out of that portfolio securities of market value of approximately $74,000,000 from which the net profit amounted to something over $1,000,000. Of that same portfolio, the securities remaining unmatured and unsold on June 30, 1931, had then a market value of $1,139,000,000, which sum, taken with the amount matured or sold, showed a total of $1,213,000,000. Thus, in market value of securities still owned, plus market value of securities sold in the interim, the company had a profit between Dec. 31, 1929, and June 30, 1931, of approximately $13,000,000.

Lest one might raise the point that the difference in our securities was computed as of Dec. 31, 1929, while that relating to the securities listed in the above mentioned address was computed as of Oct. 17, 1929, I have had a separate computation made as to the difference in market value of the common stocks contained in the list mentioned, as between Dec. 31, 1929, and June 30, 1931. Notwithstanding the depreciation in market values of stocks between the upset of October, 1929, and Dec. 31, 1929, nevertheless, the common stocks referred to had depreciated in market value between Dec. 31, 1929, and June 30, 1931, by somewhat over 30 per cent.

Inherent Stability

WHILE the figures regarding our own company's securities have brought out the fact that there was an actual appreciation between the dates mentioned, it is not that fact which I wish to stress so much as the fact that during this period of severe financial depression, our diversified investments have exhibited a stability which we believe is inherent generally in the types and methods of investment followed by legal reserve life insurance companies.

In this connection, I may well allude to a tabulation recently published by a New York investment house which showed that, of the life insurance companies having assets of over $500,000,000, the approximate appreciation or depreciation of bonds and stocks (the stocks being principally preferred or guaranteed) for any one year, in comparison with the market value the previous year, ranged between Dec. 31, 1924, and Dec. 31, 1930, from a high point of 3.06 per cent appreciation to a low point of 2.74 per cent depreciation.

Furthermore, while having alluded to market values in order to make a comparison in results with the list of common stocks which has been mentioned, it should not be overlooked that, by law, bonds held by life insurance companies and not in default are valued on an amortized basis and market values, as such, are not of present significance except in the case of those bonds which may be in default.

Railroad Credit

OF the various types of bonds in our portfolio which have suffered most at this particular time, the largest single classification is that of railroad securities and a word of comment may not be out of place on the general situation of railroad credit. But even in this type of investment, the bulk of underlying bonds continue to be in good standing. The difficulty has arisen in certain types of overlying bonds which have not fared so well. Possibly, the outstanding reasons for this condition may be traced to the nature as well as the current problems of the railroad business and the substantial reduction in earnings, which combined have engendered a lack of confidence in the ability of the carriers to weather the storm.

The railroad business is one that requires vast capital expenditures, not only for the original installation of plant, but for the constant additions and improvements thereto. The investment in plant and equipment of the railroads is from four to five times the gross earnings. From such gross, 70 per cent to 80 per cent is required in normal times for operating expenses, including maintenance and taxes. From the balance must be paid interest charges amounting, roughly, to 10 per cent of the gross, and only from the remainder are funds available for improvements and for dividends, if any. Obviously, with such a high percentage in operating expenses and fixed charges, it is impossible in a period of depression to reduce the cost of operation in proportion to the loss in gross earnings and, as a consequence, net earnings suffer out of all proportion to loss in traffic. It might not be out of place to observe in this same connection that when business picks up again, as it most surely will some day, the net earnings of the railroads will improve faster than the increase in gross might give reason to expect.

Must Find Solution

AS I have stated, the general lack of confidence in the railroads is most evident in the present market value of their junior securities, many of which are now selling practically at receivership prices. True, the quotations are wide and a comparatively small volume will cause wide fluctuations. Nevertheless, railroads which have maturities to meet or which are confronted with necessary heavy expenditures are facing financial problems probably as difficult as any they have experienced in this generation. The country must find a solution to this difficulty or face action by the Government.

Looking at some of the fundamentals involved, one may question whether the "flight of capital" from the railroads is entirely justified. Certainly railroad credit is at low ebb and confidence is sorely shaken. This situation may best be illustrated by what transpired in connection with a very recent transaction where a comparatively small issue, amply secured on the credit of one of the strongest railroads in the country, put out by a banking house with the very highest reputation, was absorbed by the market to the extent only of about 25 per cent. The offering would not have

been a success if the remaining 75 per cent of the issue had not fortunately been placed with one investor.

However, the mandate in the law provides that the roads are entitled to a fair return—that rates should be fixed to yield as nearly as may be 5¾ per cent to 6 per cent return on their valuation. This percentage of return cannot be regarded as too great, in view of the fact that the courts have held that 7 per cent to 8 per cent are fair returns on property investment used in a public service. In connection with the contention sometimes made that not all of the property of the railroads is employed in useful public service, it should be said that the Interstate Commerce Commission's tentative valuation on Class I railroads, based on pre-war values, plus additions and betterments, and less depreciation, brought down to the end of 1930, was approximately $21,500,000,000. But according to a formula used by the Commission in a recent decision which gives more weight to present day values as required by the Supreme Court of the United States, this figure should probably be increased to somewhere between twenty-five and twenty-six billions. The total property investment of the Class I railroads, according to their own records, is slightly in excess of this figure. The capitalization of the railroads, however, both bonds and stocks, is somewhat less than nineteen billions, of which less than two-thirds is in bonds. Certainly this gives ample margin for writing off in the valuations of the railroads any of that type of property which may not be required or necessary in a public service.

Volume of Rail Traffic

THEN it is not conceivable that the country can get along without the transportation facilities provided by the railroads. It scarcely can be claimed that the day of the railroads is waning to the extent that they are in the process of being superseded by other means of transportation in the manner that the street car lines have been replaced by taxicabs, buses and privately operated automobiles, although this is claimed in some quarters. The statement that we now have a new era of transportation is just as unsound and as inaccurate as the cry of a brief two years ago that, for other reasons, old measures of value as applied to corporate shares should be disregarded. In proof of this assertion, recent public statistics on internal commercial freight tonnage, exclusive of that carried on the Great Lakes, shows that in the year 1929 the railroads carried over 89 per cent, pipe lines just short of 6 per cent, motor trucks, 3 per cent, inland waterways, 1½ per cent, electric railways and airplanes together making up the remainder of slightly over ½ of 1 per cent of the traffic.

Even in connection with truck competition, there should be borne in mind the signal service of trucks as feeders to the railroads. No doubt, it is true that during the era of railroad building, had it been possible to visualize the present motor transportation made possible by hard road construction, much of the branch line mileage of the country would not have been built. But even there, as a long haul transporter of freight, particularly heavy and bulky commodities, the present-day truck is too expensive to be a serious permanent competitor of the railroads. No doubt, better coordination of the railroad and the truck for convenient store-door service is a development to be expected. There are problems respecting regulation and unfair competition on both the highways and the waterways which remain to be solved in the public interest and it may be expected that such projects will be carefully studied from the standpoint of the proper extent, if any, of general taxation for the benefit of the comparatively few.

A Valuable Service

WE enjoy in this country today the best railroad system in the world. Because of this excellent service, freight is moved faster, and reduced inventories and cheaper operations on the part of merchants and manufacturers are the result. In the light of the experience of other countries, we do not want to substitute the paralytic hand of Government ownership for the initiative and efficiency which characterizes the privately owned and operated railroads of America.

Under an existing emergency in 1920, freight rates were increased from 25 per cent to 40 per cent, depending on the territory. This resulted in restoration of confidence in the railroads. It enabled them to command capital and laid the foundation for the great improvement in railroad service which the last decade witnessed. It was not long after that increase that the railroads were able to and did grant reductions. It should be understood that the application for a 15 per cent increase which is now pending would not, if granted and exercised in full, increase rates to the level which prevailed in 1921.

Loans secured by first mortgages on improved real estate have been a favored type of security for all sorts of trust funds. The foreclosure of mortgages securing bond issues, which foreclosures have been taking place in the present crisis, should not be confused with mortgage investments of a trustee character, that is, individual mortgage loans adequately secured and protected by sound equities. This is what I have already termed a subordinate interest of others in the nature of a proprietary ownership serving as a cushion against loss on the part of the primary interest.

Taking again the figures of our company which, no doubt, reflect the experience of all the mutual life insurance companies, I find we had invested in mortgages on city property at the end of 1929 more than $1,150,000,000, and the total amount of properties owned through foreclosure then amounted to .159 per cent of the investment total.

At the end of 1930, on outstanding mortgage investments of more than a billion and a quarter, the foreclosed properties had increased to .322 per cent. On June 30, 1931, with a total of such investments of $1,300,000,000, the foreclosed property totaled 6/10 of 1 per cent.

The foreclosures, in percentages, are still small, but indicate a trend reflecting present day conditions. On a large volume of business some foreclosures are inevitable, but losses are not necessarily the final result. It may more accurately be said that a temporary change occurs in the form of investment. The fact is, our company has had a surprisingly favorable experience. Over a period of years prior to the present day situation, during which the country passed through other depressed times in which we had foreclosures, such foreclosed properties realized on sale, taking the total of all transactions, a substantial profit.

Governmental Paternalism

THERE is a growing tendency throughout the world, everywhere, to look to governments for aid in every emergency. In England, the working people expect the government to furnish them with jobs and, if that is not done, they expect the government to provide them with a living. This tendency is growing to a serious extent in this country.

Remedies not based upon sound economic laws are mere palliatives and not cures. It is time for resourceful methods predicated upon past experience and sane thinking and sober judgment.

Trust Resources Are a Nucleus for Recovery

By J. STEWART BAKER
President, Bank of Manhattan Trust Company, New York

The Assets of Fiduciary Institutions and Departments Have Been So Carefully Safeguarded That They Have Come Through the Depression Virtually Intact. This Unusual Record Imposes on Trust Men Opportunities for Leadership and Wider Service.

IN viewing a landscape, one cannot overlook a mountain in the foreground and, in studying contemporary American life, one cannot be blind to the impressive proportions of corporate trust service. Fifty billion dollars in financial resources must loom large in any discussion. It is a topographical fact.

This impressiveness is enhanced when one realizes how rapidly it has come about. A single generation ago —in 1900—it involved only 7 per cent of the present number of financial institutions giving such service and resources of but little more than 3 per cent of those of today. This amazing growth challenges attention, and I would like to draw from them one or two more or less familiar deductions.

A *Natural Growth*

THE first is that this great subject is less one of financial technology than of social relations or public relations, since the scale of its operation already includes a substantial section of the public. Putting this thought in one concrete sentence: the public created the trust business. It was not a business extension device conceived by financial men and foisted upon the public in order to gain more profits; the order was the other way about. Human need required a service that virtually compelled the creation of institutions which could render it and they came into being. It is no affectation to say that the perfectly legitimate motive of business profits has been rather remarkably subordinated in the development of trust service; its social values have been so much more conspicuous.

Such considerations lend a real distinction to this business, or profession, and to the men who are its practitioners. Public interest is intrinsic in everything that trust men do.

Perhaps the earliest expression of the human need referred to was found in the dawn of history when men began to seek for means whereby their wishes as to the disposition of their property after death might be made effective. This, of course, led to the long, slow evolution of will-making, which even today is far from universal, and to the coordinated growth of executorship. It would be interesting, but superfluous, to trace this changing process through ancient Egypt, Greece and Rome, then to Byzantium and into medieval Europe and modern England, in all of which it received essential features. However, we come at last to an incident so significant that I cannot forbear to touch upon it.

> ### For This Age
>
> *WITH one vital difference, Mr. Baker says that trust service is an embodiment of machine age wisdom in the field of economics. Just as mechanical invention has gone far toward eliminating the uncertain human factor in industrial production, so trust companies have reduced human error to a minimum in handling estates. In the case of trust work, however, the qualities of sympathy and judgment have been added to efficiency.*

In 1801, a retired seafaring man fell ill in New York City. Having a premonition that he was about to die, he greatly desired to assure the carrying out of his long-cherished dream of establishing a haven of refuge for poor and indigent sailors, or a "snug harbor" in the vernacular of the sea. This man was Captain Robert Richard Randall—a name which should be prominently enrolled in the annals of trust service.

Required Creative Genius

LIKE most sensible men, Captain Randall believed in engaging high class legal talent in the important task of drawing his will. There were perhaps no abler lawyers in the country than Alexander Hamilton, the nation's first Secretary of the Treasury, and Daniel D. Tompkins, who later became Vice-President of the United States. They were, of course, technically competent to give expression to his wishes but when it came to making certain that these would be carried into effect, that was quite another matter; it called for creative genius.

Randall explained that he did not wish merely to distribute his property, his purpose was to make sure that it should continue to function throughout future generations in providing comfort for aged members of his former calling. The most faithful executor would still be mortal, he emphasized, and no one could foresee on whom the sacred trust would later devolve. The plan must be made to work long after any individual trustees whom he might name had passed away.

Here, indeed, was a problem that was new to will-making, so far as the record shows; at least it had never before confronted a Hamilton and a Tompkins. These brilliant lawyers worked out a most ingenious solution which has stood the test of 130 years for it contained the germ of corporate trust service. In other words, the property was to be administered by trustees who were to qualify not as individuals but as occupants of offices, such as the chancellor of the state, the mayor and recorder of the

city, the president of the chamber of commerce and others; the trusteeship passing automatically to the successor in office as each one left his then position. Five years later this board of trustees was incorporated by a legislative act, according to the wish expressed in the will, thus making it a corporate body. If this was, in fact, the seed from which the modern institution of corporate fiduciaryship has grown, it seems to me quite fitting to pay full tribute to the legal profession for thus pointing the way to the solution of a great human problem.

Developed Slowly

HOWEVER, in spite of the fact that a long procession of aged seamen benefited by the kindly thought of Captain Randall, it was many years before the new and vital principle began to be applied to other affairs. Two generations later there were but half a dozen companies in the trust business. This was not due to lack of understanding, but to the fact that surrounding conditions were not so insistent as they have since become. The public need was not yet pressing.

Then came the era of railroads and steam power in industry. Fortunes grew into greater figures, and the administration of estates involved large-scale problems in which the limitation of individual executors and trustees formed a disturbing factor. Corporate trusteeship was free from such limitations. Its capacity could be expanded to fit its requirements. It came inevitably into employment, slowly at first; then less slowly, until within recent years its momentum has grown with astonishing speed.

Now here is the point to be noted: the corporate fiduciary idea was not "sold" to the public by any aggression of the institutions rendering it—not until comparatively recent years. It rested almost inert through the era of small affairs, but when public need called for its services it arose. Technically, it may have been invented by Hamilton and Tompkins but generically it was created by the public. Therefore, to the public as a whole, as well as to its individual trustors and beneficiaries, it owes its real allegiance.

Inescapable Responsibility

WE come then to a significant fact: the trust business now finds itself in a position of great influence in the whole modern scheme of life. I use the expression "finds itself" intentionally because this position represents less the reaching of a long-planned objective than the realization that forces largely outside of itself have contributed to place it there. Moreover, in this actively moving world such a position is not one of rest but of action. It may have been attained almost unconsciously but to be retained the business must constantly demonstrate afresh its qualities of service and leadership.

First as to service, our complicated modern life has needs not recognized by our more leisurely ancestors. People are too many, their affairs too complex for the old intimacy of relations. We have mechanized many of our contacts, which is merely a way of saying that people in this so-called machine age have sought means for eliminating human limitations in meeting their requirements. Some of these means have been of steam and steel; others have employed human factors but have organized them on a basis of new efficiency, and among the most efficient of the latter is trust service.

Yet even in this machine age one very human call is increasing, the call for confidence. Has the demand for confidence ever been more insistent than it is today, in business, in social organization, in international relationship? And confidence is a synonym for trust. Trust service, therefore, however much its efficiency may suggest the machinery must be human at its very core in that it must be true to its name and inspire human trust.

An Impressive Record

IN a striking degree that has been the case. So thoroughly segregated have been the assets of the trusts, so careful has been their administration, so complete their safeguarding by law that the thousands of financal institutions rendering this service have preserved their trusts inviolate during the present troubled period. Even where the affairs of the institution itself have become involved, its trusts have remained secure. Everyone recalls instances of this, some of them prominent. The whole business has been founded on trust. The business has demonstrated that it deserves trust.

But its character has been active, not static. Its service has differentiated into the many branches, as human problems have found in it their best solution, yet has remained basically one. As future problems arise still further applications are likely to be found for there is, perhaps, no more versatile principle in the entire field of business relations than that of corporate trusteeship. It is affecting more and more lines of business and an ever-widening circle of individuals. Some people have even expressed the quite baseless fear that, in course of time, all industrial wealth will be tied up in trusts, forgetting that trusts are self-terminating and that wealth flows not into but through them.

Trust companies have reached a position where their influence penetrates very far into the business and social affairs of all the public and this influence is consistently beneficial. Trust service is a process of conserving but not of hoarding; of motion smoothly directed toward a recognized end; of energy controlled, as in an electric current, not wasted, as in a lightning flash; it is an orderly note in human affairs.

But if the trust companies influence the public, the influence is reciprocal. There has been developed a new type of officer whose activity has been virtually professional and whose study has involved humanics as well as finance. Such a man has the background which comes from a broad and abstract knowledge of financial trends and basic conditions but he applies them all in human terms, generally in terms of individuals. He is objective as well as subjective.

More Than a Mechanism

SUCH requirements are not easy to combine but it is to the honor of the trust business that it has produced these individuals in increasing numbers. The swift growth of the business cannot be explained on any other basis. Men of this class have been non-mechanical parts of a great modern mechanism. Their business relationships have enabled them to share in the accumulated knowledge and the enlarged facilities of the whole machine but their human contacts have been made as individuals and to these they have brought sympathy, understanding and judgment. Thus they have added to the permanence and efficiency of the mechanism the personal qualities that previously were associated with individual trusteeship. Under such conditions growth has been inevitable.

When we attempt to project our thoughts into the future we find the usual difficulties that confront prophets but even so should not entirely abstain. Trust service really is based upon looking ahead and cannot avoid this responsibility. Its duty is that of reducing contingency although we say it with all modesty for, of course, no one can foretell the details of future happenings.

Yet it seems reasonable to expect a steady enlargement for many years to come. New problems are sure to arise and the flexibility of corporate trusteeship has made it pre-eminently a solver of problems. Some of these

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State Secretaries Section

Extension of the Influence of the A. B. A. Through the Secretaries of State Associations. Protection of Banks. Publication of Magazines. Financial Problems Facing State Organizations. Lessons Which Bankers Learn From the Depression Period.

TWENTY-TWO states and the District of Columbia were represented at the meeting of the State Secretaries Section in Atlantic City. The session was unusually productive. Reports and discussions furnished valuable working data and the prevailing spirit of optimism augured well for the activities of state associations during the coming year and their closer cooperation with the American Bankers Association. Harry J. Haas, Rome C. Stephenson, Francis H. Sisson and Fred N. Shepherd attended the meeting. Mr. Sisson spoke briefly stressing the value of teamwork between the state associations and the national organization. He suggested that meetings of state associations might be arranged early in the year so that the work of attending the various state conventions could be divided up among the officers of the American Bankers Association.

New Officers

THE Section elected Paul P. Brown of North Carolina president for the coming year. The new First Vice-President is W. G. Coapman of Wisconsin and the new Second Vice-President is J. W. Brislawn of Washington. The board of control will be composed of the three officers named above, also H. G. Huddleston of Tennessee and Miss Forba McDaniel of Indiana.

Robert E. Wait of Arkansas spoke on the profession of being a secretary of a state bankers association. "We are the ones," he said, "who are on the outposts, trying to check and double check and keep things on an even keel. If our banks are, in their perplexities and in their worries, thinking about discounting this great work of the American Bankers Association, the state secretaries, with all the influence that we can muster, should counsel with them and see that they do not do that."

Miss Forba McDaniel of Indiana took up the matter of publications issued by state associations. Replies to a questionnaire which was sent to all secretaries indicated that a majority regarded the printing of convention proceedings in book form as an unnecessary expense. It was further disclosed that the publication of a state association magazine was usually conducted at a profit, chiefly derived from advertising. The speaker stressed the usefulness of bulletins to carry emergency messages to members between the issues of the magazine. Twelve of the secretaries present at the meeting said that their associations published magazines.

Paul P. Brown,
Secretary, North Carolina Bankers Association, Raleigh.
Incoming President, State Secretaries Section

W. W. Bowman, executive vice-president of the Kansas Bankers Association, presented a report on the subject of protection. He said that the past twelve months had brought no relief from either the frequency or seriousness of bank robberies. He pointed out three agencies to which bankers could look for assistance: the states with their police protection, the individual banks and the banking organizations. He expressed the belief that "from a well-informed coordination of the forty-eight state agencies with each other and with the American Bankers Association, would arise a force which, in wisdom and strength, and power of achievement, would be well-nigh invincible."

Income and Expenditures

FINANCIAL problems facing state associations were discussed by David M. Auch of Ohio. He suggested various economy measures but stressed the importance of not trying to economize in the wrong directions. He felt that any curtailment, for example, in the work of checking up on bank legislation at the present time, would be unwise. He thought also that expenditures in the fields of bank management, conferences and bulletins, should be increased, not reduced. Following the presentation of this paper those present were asked to indicate whether or not they anticipated increases in dues in their respective associations, and five answered in the affirmative.

The chairman of the Committee on Section Secretarial Service, Henry S. Johnson of South Carolina, reported on the work that was being done to coordinate the Section's program with that of the American Bankers Association and to broaden the service which the Section renders to individual secretaries. Seven specific suggestions were made including the organization of sectional conferences and the preparation of a digest of success-

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EDITORIAL

Guaranteeing Employment

WILL the statement, repeated from day to day, that the employer shall guarantee to the employee his job bear analysis?

Consider the long list of enterprises that have been started in a small way—the great military and sporting arms business that had its first beginning in the skill of a countryside blacksmith in making rifles by hand; or the preserving business that was started in a humble building at the end of a lot; or even the first savings bank in the world, or one of the great savings banks in New York City, which proudly exhibits the little box studded with brass nails which once upon a time held all of its valuables and was carried under arm every night for deposit in a neighboring bank.

Could these in their early beginnings have guaranteed to any man his job? And if they had been obliged to provide guarantees, would those guarantees have helped them to be the serviceable institutions that they are today?

Business cannot guarantee to any man his employment because business, no more than mortal man, can be sure of the future.

When we examine the range of human endeavor, the list of those corporations which seem to have a sure market during all time drops down to a very small class, such as public utility water companies. A generation ago street car companies might have been presumed to be so stable that their operation would see the very stars out, but now they are being abandoned. One may truly say that always we shall need food, but go now to the great food raising areas and preach the doctrine of the guaranteed job where many an employing farmer would like to have a guarantee that he shall stay on his farm to the end of his days!

Industry cannot guarantee much as long as we have the liberty to compete, to devise, to invent, and above all to strive for efficiency, for all over this land there are examples of what were once prosperous industries that have gone down as the result of competition, changes in styles and changes in real or fancied needs.

There is a city in New York State which once manufactured more ladies' shoes than any other city in the United States. Now it manufactures none and that distinction is held elsewhere. The guarantee of employment would have saved no one his job, nor would it have saved that industry for that town. Progress and enterprise are not to be balked in that way, nor does it seem that the interest of the individual would be best served in that way.

The guaranteed job would add immensely to costs of production, but would add nothing to the worker's ambition and it would make capital timid. Who would want to invest his money in the bonds of a corporation which might be obliged, through no fault of its own, to pay out its entire capitalization for a product it could not sell, or for wages which had not been earned because there was no work for the workers?

The guaranteed job would be an artificiality likely in the long run to bring us more harm than good. Universally applied, it would be artificial and unnatural—a near relation to that price fixing which is today and now the source of so many troubles here and abroad. The dole that like a wasting disease is slowly dragging England down, is nothing more or less than the guaranteed job.

The best corporations want their men, and value them because without them the corporation is helpless, but as long as any industry is subject to the caprice of fashion, the sword of competition, the under thrusts of discovery and invention, the influences of wind, tide and weather, industry's guarantee will avail but little unless it is written in Heaven.

And we doubt if any advocate, however honest, sincere and enthusiastic, will serve his client well by thus seeking to encumber business with a restriction which will make it difficult to find capital, and make business and capital over-cautious.

The $500,000,000 Pool

IN one respect President Hoover's Plan for the relief of the credit situation was a success before it was twenty-four hours old in that it caused doubt to give way to hope; it instilled new confidence in the public mind.

The plan was received as a reasonable, practicable and above all an immediate way toward checking that wave of liquidation that has washed away so many values. It appealed to practical men as has nothing else in the long months since the fall of 1929.

The unqualified approval of the Convention of the American Bankers Association which was accorded to the plan within a few hours of the President's announcement, and the alacrity with which banking interests in the financial capital set about to put the plan into actual operation added to the confidence that the first announcement inspired.

As the association declared in a formal resolution of the Convention the operation of this pool of $500,000,000 will be available for use by all sound banks, both state and national, and "should immediately remove the restriction upon credit throughout the United States that has been the cause of so much anxiety to bankers and the public and should serve to reestablish confidence throughout the length and breadth of this country."

Stabilization of Values

A PLAN to stabilize any commodity, or anything that men buy or sell is a plan to fix the price by artificial means instead of permitting the price to be the resultant of two natural and logical forces—the desire of the man who has and the desire of the man who wants.

The calling of price fixing by soft names does not change its character. It still remains an effort to supplant natural law, freedom of buying and selling in the open market, the judgment of individuals of the present value to them of the things that they would sell and the value to them of the things that they want. Presumably, the average man is as good a judge of present values, in so far as they relate to his own affairs, as is some stranger sitting in judgment at long range.

The experiments made in fixing the prices of such commodities as rubber, sugar, coffee, cotton and wheat contributed nothing to the progress of business, but instead scored up mammoth losses. Yet the loss reduced to a statistical basis does not tell the whole story. There is also the waste of energy, the waste of time, the individual and the home disappointments of those who have been beguiled and misled by hopes of profit never realized. This leading of the multitude out upon barren plains instead of to the green pastures they have hoped for, has been a big part of the calamity which seems to be the natural ending of every price fixing scheme.

The experience of the world in trying to control the economic tides should be ample to give protection against any similar efforts but notwithstanding that experience there is a recurring suggestion that real estate may be helped in the same way.

It should be self-evident that no amount of business sagacity could have stabilized Florida land or any other land when the Florida boom and other land booms had run their courses. It should be self-evident that no amount of business sagacity will make an Eastern farm or a Western farm worth more money than the common sense of the land-looker tells him that it is worth to him. If he and his family, labor as they will, can get only bare subsistence, then the blessings of stabilizations, unlike the quality of mercy, do not fall equally, but are reserved for the seller.

Wage Reductions

THERE is keen regret on all sides that the month of October—two years after the beginning of the business slump—should mark the commencement of a period of wage cuts.

But the action, long delayed though it has been, was inevitable because when orders fall off, business slows down, collections are slow, and there is a loss of confidence; corporations, no matter how altruistic their officers may be, cannot pursue a course which if carried on indefinitely would lead to the impairment of the company's capital.

A corporation consists of three parts—capital, labor and management. In very many corporations the party of the first part, capital, already has had its wages reduced or entirely stopped—that is, dividends have gone down, or have been passed, and when that happens capital usually experiences a second wage cut in the form of a lower market price for the sale of its securities. Management, the party of the third part, always heavily interested in the stock of the corporation, gets its cut at the same stroke, and perhaps an additional cut in the way of salary reduction.

The wage reduction for the party of the second part comes not as the result of any arbitrary action on the part of the various boards of directors which have decreed wage reductions for their corporations. Rather it comes as the result of the operation of inexorable economic law—and of common sense—for, no matter who advises that wages be kept up, what would it avail labor, or a community, or the nation to sap the strength of good industries by keeping up wages to an extent and to a point that business does not warrant?

The ramifications of a wrecked industry would be far-reaching: Community real estate would fall in value, professional practices and merchant enterprises languish; individuals would be forced to seek work in distant places and families in consequence be broken up, for all of which the difference between the old wages and reduced wages would not be adequate compensation.

The economic world is adjusting itself to new conditions, and we doubt if there is any force on earth that can prevent this adjustment. Capital has had its wages reduced and is out of employment; agriculture has had its wages reduced and knows now as never before the meaning of the word unemployment; even Great Britain with all its wisdom and power could not prevent the fall of the pound.

Wage reductions are onerous, but in an era of falling prices or fallen prices it does not follow that wage reductions actually are reductions in the purchasing power of the individual wage earner. Rather it should be considered they partake of the nature of adjustments to a prevailing level.

More Bonds or More Taxes

THE burden of taxes grows apace. In any kind of times the amount that the average family in the United States has to set aside for the ever lengthening list of taxes is a serious drain; in times of slack business many corporations as well as the individuals all but stagger under the load. Sympathy may prompt rejection of proposals at Washington to increase the taxes, but postponement means that the extravagant drift in public expenditures shall have no unusual check from public opinion.

As long as the public does not cry aloud for relief, the increase is likely to continue. Everyone, it would seem, has had jolts and jars enough in the last two years to be spared from any more, but is that sufficient excuse for closing our eyes to the fact that public expenditures are reaching unprecedented heights?

Resolutions of the Convention

THE General Convention of the American Bankers Association adopted the following resolutions Oct. 7 at Atlantic City:

The American Bankers Association has implicit confidence in the ability of the people of the United States to meet successfully the unusual economic conditions with which they are now confronted. We believe that the great natural resources and the courage and high order of intelligence of our people, which have brought our country to its present position of preeminence in finance, commerce and industry, is a guaranty that the present-day problems will be solved.

American credit is still the strongest in the world and American money is everywhere recognized as the soundest in the world. We hold a large part of the world's monetary gold and it is fundamentally true that where the gold is there the strength lies. The large resources of our Federal reserve banks have been scarcely touched and are available to supply hundreds of millions of credit or currency. In spite of the storm which has affected every nation in the world, we have approximately 22,000 banks in the United States which are still upholding the high tradition of sound banking—faithfully serving their patrons and meriting the confidence and goodwill of the public.

It is against this background that the bank suspensions of the first eight months of the year must be considered in order to put the bank failure situation in its true perspective. Ninety-six per cent of the banks of the country were not involved in bank suspensions, and almost ninety-nine per cent of the deposits of the people were not affected. With this display of strength, the American Bankers Association is confident that our banking situation is sound and that America's indomitable will to conquer will see us safely through the present difficulties as it has in depressions of the past.

Moratorium and International Relations

IT is now generally recognized that the conditions which are acute today in the United States have been brought about through events in other parts of the world, largely due to the economic consequences of the World War, which, by their very nature, require time and patience in their solution. The near approach of the expiration of the international debt moratorium, which occurs July 1, 1932, carrying with it, as it does, uncertainties as to the ability of the nations concerned to resume the payment of their obligations at that time, is a very serious obstacle to the resumption of normal international trade and commerce. We, therefore, respectfully suggest to our government the consideration of undertaking negotiations immediately toward accomplishing an extension of the moratorium until such time as seems necessary to allow sufficient recovery from present conditions to warrant the belief that adjusted payments can be resumed and that previous to the maturity of the moratorium, the capacity to pay of the nations concerned be reconsidered. Questions pertaining to the financial condition of the world powers are intimately associated with the possible solution of the armament problems. We heartily endorse attempts now being made by the governments of the earth to bring about effective world disarmament and the consequent reduction of the financial burdens imposed by competitive armies and navies.

In connection with the solution of international financial problems, we are pleased with the progress now being made through personal conferences of business and governmental leaders in the capitals of the several important countries, looking to more friendly and better economic relationships, which will lay the foundation of a more stable basis for conducting the business of the world.

Unemployment Relief

WE recognize the importance of meeting the obligations which have fallen upon our people because of the great number of unemployed who find it difficult to obtain work at the present time. We believe that this problem can be met in the characteristic American manner, namely, by private and local relief activities. We commend the action of many American bankers who are now aiding in the furtherance of emergency relief. We believe that the rank and file of the American people are adverse to any system of unemployment insurance which would lead this country to inaugurate a program of national doles at governmental expense. It has been demonstrated in all countries where the dole system has been applied that it has destroyed the spirit of individual initiative and put upon governments unbearable burdens.

Confidence in Our Institutions

TO speed recovery to normal conditions all citizens regardless of partisan affiliations, business or professional activities should now earnestly and courageously cooperate to maintain the confidence of the people in the fundamental institutions which have contributed so much to our nation.

$500,000,000 Pool

WE heartily approve the plan of the President of the United States under which a $500,000,000 Bank Pool is being created for the purpose of meeting the discount demands of bankers who find it advisable in supplying the needs of the public to obtain funds from collateral of a character, which though sound, is not eligible for rediscount directly or indirectly with the Federal reserve banks.

The operation of this pool which would be available for use by all sound banks, both state and national, should immediately remove the restriction upon credit throughout the United States that has been the cause of so much anxiety to bankers and the public and should serve to reestablish confidence throughout the length and breadth of this country.

We desire to express to the President of the Association and his associate officers our appreciation for the able manner in which the affairs of the organization have been conducted during the past year. The administration of President Stephenson has come at a time which would have tried the skill and intelligence of any man in this country. He has presented at all times, with dignity and force, the policies of this Association in his many contacts with the business world.

The Association is indebted to the speakers in the various sessions of the Convention for the splendid addresses they have delivered and the fine thought and care they have given to the problems of finance and industry. This Association also extends its thanks to the bankers, hotels and the press for their many acts of courtesy which they have extended to the delegates of this Convention.

School Savings Aid Families

By W. ESPEY ALBIG
Deputy Manager, American Bankers Association

In Spite of Adverse Economic Conditions Volume of Deposits Declined Only 8 Per Cent During Year Ending June 30, 1931. Net Balance for Period $2,342,888, — 9 Per Cent of Deposits.

SCHOOL savings during the year which closed with June 30, 1931, had their time of greatest test and likewise demonstrated their possible service. In 14,628 schools where opportunity for school savings is available, 4,482,634 children deposited the sum of $26,783,610. There are eighteen more schools than last year, the number of children utilizing school savings 115,097 fewer, and the amount of money deposited is less by $2,329,453.

Thus in the face of widespread unemployment the number of schools, as compared with last year, where savings may be deposited by children and where these children may have instruction in the meaning and use of money has increased, the number of children depositing decreased by only .025 per cent and the amount of deposits by only 8 per cent. That for two years school savings has faced adverse conditions and yet continues to enlist interest and enter new territory evidences the soundness of the idea on which it is based, that of giving children a working knowledge of what money is, the part it normally plays in the every day life about them and the machinery by which it is conserved and utilized in the best manner for the good of the child or the family of which the child is a part.

Achieves New Importance

BECAUSE the great development of school savings came during the past decade when for the most part employment was general, and when natural products were sought at fair prices, the actual participation in thrift and savings on the part of many of the pupils came purely as a by-product of the classroom instruction and not as a necessity to make home conditions better or even to make subsistence possible. During the past two years and particularly the last one, the utilitarian value of this by-product of school savings is being appreciated.

During the school year 1928-1929 when the high tide of industry was diffused pretty generally over this country, 37 per cent of the money deposited during the year remained as a balance to the credit of the pupils when the year was over. A year later the balances decreased to 26 per cent of the deposits. The closing year had a balance of $2,342,888.74 or 9 per cent of the amount deposited during the year.

In times of normal or supernormal prosperity there was a tendency in

(*Continued on page* 267)

SUMMARY AND COMPARISON
1929-1930 and 1930-1931

STATES	Number of Schools		Number Participating		Deposits		Net Savings	
	1929–30	1930–31	1929–30	1930–31	1929–30	1930–31	1929–30	1930–31
UNITED STATES....	14,610½	14,628½	4,597,731	4,482,634	$29,113,063.48	$26,783,610.41	$7,690,529.68	$2,342,888.74
ALABAMA	73	67	39,129	27,632	178,050.87	137,330.25	73,800.84	35,064.34
ARIZONA	26	26	12,265	13,786	59,274.18	56,411.38	26,332.68	18,001.73
ARKANSAS	7	7	2,129	2,285	9,756.37	6,307.67	520.19	**3,323.09†**
CALIFORNIA	2,488	2,496	416,990	448,512	1,278,268.20	1,530,127.79	672,402.62	798,330.49
COLORADO	3	4	590	896	1,434.57	1,547.81	....	917.62
CONNECTICUT	530	633	123,601	118,327	1,034,138.38	956,881.09	253,993.58	136,394.07
DELAWARE	58	64	33,755	34,227	216,404.50	185,957.48	13,466.78	**6,259.52†**
DIST. OF COLUMBIA	49	44	5,978	5,851	44,709.02	50,180.27	44,709.02	50,180.27
FLORIDA	29	39	8,130	10,704	64,472.42	666,619.22	11,370.71	2,612.87
GEORGIA	104	89	57,825	51,891	187,905.98	154,361.43	31,609.64	**13,356.91†**
HAWAII	97	73	2,059	4,589	24,906.28	33,625.25	24,789.14	31,416.93
IDAHO	36	27	8,126	5,972	34,668.26	229,326.69	21,388.29	11,161.57
ILLINOIS	521	500	147,109	136,992	1,282,845.08	1,000,523.16	111,765.76	**82,701.60†**
INDIANA	273	270	99,322	73,114	660,382.81	449,279.51	66,767.46	**6,811.53†**
IOWA	513	217	62,973	68,686	418,248.42	360,147.42	51,202.21	**22,415.30†**
KANSAS	79	33	38,916	9,552	205,851.60	82,052.42	22,676.70	1,188.84
KENTUCKY	60	43	10,695	7,042	54,675.37	38,167.00	5,169.38	3,420.93
LOUISIANA	16	19	1,686	1,833	14,485.52	17,163.25	2,974.26	4,543.44
MAINE	338	339	38,627	35,174	173,269.19	149,839.13	89,070.60	62,271.22
MARYLAND	106	114	46,148	49,716	367,659.40	501,222.52	31,054.83	300,695.80
MASSACHUSETTS	1,224	1,186	250,047	239,280	1,440,521.33	1,251,401.79	585,993.73	459,479.50
MICHIGAN	465	427	149,642	135,774	895,754.00	682,922.78	108,576.59	**40,185.65†**
MINNESOTA	430	300	159,547	127,436	773,288.28	665,588.15	209,773.85	148,696.82
MISSISSIPPI	2	4	9[illegible]5	....	11,044.13	....	1,333.59	....
MISSOURI	203	203	42,996	92,777	536,097.30	582,454.33	216,982.02	188,051.79
MONTANA*	....	....	....	....	....	....	....	....
NEBRASKA	50	50	40,638	....	249,788.00	188,197.07	53,000.00	**148,295.20†**
NEVADA	2	....	300	....	355.78	....	13.73	....
NEW HAMPSHIRE	97	112	8,018	6,617	41,948.45	39,072.26	17,526.56	16,475.12
NEW JERSEY	811	796	270,576	264,231	2,159,443.08	2,644,925.30	382,901.30	93,107.30
NEW MEXICO	10	10	2,947	668	16,532.21	3,726.36	12,259.26	1,309.02
NEW YORK	1,464½	1,463½	970,226	979,895	5,217,804.25	4,606,108.24	2,836,149.48	159,115.46
NORTH CAROLINA	66	71	13,719	20,768	88,904.78	78,573.15	10,953.28	13,308.75
NORTH DAKOTA	16	17	633	1,040	1,913.97	3,608.15	1,229.84	2,102.88
OHIO	728	812	290,595	277,603	1,937,729.50	1,605,615.75	209,926.44	**80,190.72†**
OKLAHOMA	65	72	16,302	15,113	225,917.49	23,300.49	227,020.57	**204,413.16†**
OREGON	137	130	57,639	55,184	404,359.23	364,798.82	95,297.13	23,145.58
PENNSYLVANIA	1,876	1,912	738,186	659,086	4,832,618.56	4,061,199.50	640,677.02	29,592.85
RHODE ISLAND	344	350	111,762	120,856	1,031,258.98	862,430.05	1,774.08	87,694.58
SOUTH CAROLINA*	....	....	....	....	....	....	....	....
SOUTH DAKOTA	56	49	11,348	10,963	113,816.95	96,593.47	27,020.02	1,654.60
TENNESSEE	36	41	21,188	24,236	160,129.21	140,477.46	9,321.93	**5,944 48†**
TEXAS	188	236	76,482	95,335	367,199.64	372,016.73	166,866.89	101,480.09
UTAH	37	19	12,008	1,785	43,893.53	5,930.12	12,868.77	2,963.44
VERMONT	29	24	4,407	2,306	7,880.21	5,773.93	4,422.52	3,699.10
VIRGINIA	85	114	31,818	29,524	221,632.09	178,626.40	20,751.87	20,812.47
WASHINGTON	312	337	130,661	106,669	1,119,372.66	953,850.65	194,267.52	75,937.40
WEST VIRGINIA	145	142	29,484	30,340	162,087.26	131,438.87	22,581.17	30,510.11
WISCONSIN	324	298	81,097	78,367	738,247.09	627,909.85	63,855.73	31,448.82
WYOMING	2	2	....	....	2,120.10	....	2,120.10	....

TOTALS—UNITED STATES	Number of Schools	Number Participating	Deposits	Net Savings
1930–1931	14,628½	4,482,340	$26,783,610.41	$2,342,888.74
1929–1930	14,610½	4,597,731	29,113,063.48	7,690,529.68
1928–1929	14,254½	4,222,935	28,672,496.00	10,539,928.46
1927–1928	13,835	3,980,237	26,005,138.04	9,476,391.32
1926–1927	12,678	3,742,551	23,703,436.80	9,464,178.93
1925–1926	11,371	3,403,746	20,469,960.88	8,770,731.05
1924–1925	10,163	2,869,497	16,961,560.72	7,779,992.55
1923–1924	9,080	2,236,326	14,991,535.40	8,556,991.27
1922–1923	6,868	1,907,851	10,631,838.69	....
1921–1922	4,785	1,295,607	5,775,122.32	....
1920–1921	3,316	802,906	4,158,050.15	....
1919–1920	2,736	462,651	2,800,301.18	....

† Net Loss. * No report.

Committees and Commissions 1931—1932

THE following list includes the membership in the various Committees and Commissions (excepting those of Divisions and Sections) for the ensuing year, under the new administration; the membership of the Federal and State Legislative Councils; members-at-large of the Executive Council, and the vice-presidents for territories and in foreign countries:

Administrative Committee

Harry J. Haas, vice-president, First National Bank, Philadelphia, Pa., chairman.

Paul P. Brown, secretary, North Carolina Bankers Association, Raleigh, N. C.

Thomas C. Hennings, vice-president, Mercantile-Commerce Bank & Trust Company, St. Louis, Mo.

P. D. Houston, chairman of board, American National Bank, Nashville, Tenn.

F. M. Law, president, First National Bank, Houston, Texas.

Felix M. McWhirter, president, Peoples State Bank, Indianapolis, Ind.

Henry J. Mergler, assistant treasurer, Fifth Third Union Trust Company, Cincinnati, Ohio.

A. J. Mount, president, Bank of America National Trust & Savings Association, San Francisco, Cal.

Jay Morrison, vice-president, Washington Mutual Savings Bank, Seattle, Wash.

A. D. Simpson, vice-president, National Bank of Commerce, Houston, Tex.

Francis H. Sisson, vice-president, Guaranty Trust Company, New York, N. Y.

Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend, Ind.

C. E. Tiffany, president, Fauquier National Bank, Warrenton, Va.

Walter Tufts, president, Worcester County National Bank, Worcester, Mass.

W. Walter Wilson, president, First Milton National Bank, Milton, Pa.

Bankruptcy Committee

M. R. Sturtevant, vice-president, First National Bank, St. Louis, Mo., chairman.

Charles W. Boyden, president, Farmers State Bank, Sheffield, Ill.

Frank W. Bryant, vice-president, Exchange National Bank, Tulsa, Okla.

Robert McEvilley, vice-president, First National Bank, Cincinnati, Ohio.

Travis Oliver, president, Central Savings Bank & Trust Co., Monroe, La.

Ralph Stone, chairman of board, Detroit Trust Co., Detroit, Mich.

E. H. Westbrook, president, Midland National Bank, Billings, Mont.

Charles L. Zigler, vice-president, First National Bank & Union Trust Co., South Bend, Ind.

Advisory Member: Thomas B. Paton, general counsel, A. B. A., 22 East 40th Street, New York, N. Y.

Committee on Federal Legislation

Robert V. Fleming, president, Riggs National Bank, Washington, D. C., chairman.

John F. Daly, president, Hibernia Commercial & Savings Bank, Portland, Ore.

John R. Downing, president, Citizens Union National Bank, Louisville, Ky.

Mark M. Holmes, president, Exchange National Bank, Olean, N. Y.

E. W. Stout, president, Fletcher American National Bank, Indianapolis, Ind.

Lane D. Webber, vice-president, First National Trust & Savings Bank, San Diego, Cal.

EX-OFFICIO:

Chairman, Federal Legislation, National Bank Division: Spencer S. Marsh, vice-president and cashier, National Newark & Essex Bkg. Co., Newark, N. J.

Chairman, Federal Legislation, Savings Division: Howard Moran, vice-president, American Security & Trust Co., Washington, D. C.

Chairman, Federal Legislation, State Bank Division: James C. Bolton, president, Alexandria Bank & Trust Co., Alexandria, La.

Chairman, Federal Legislation, Trust Division: Edward J. Fox, president, Easton Trust Co., Easton, Pa.

Federal Legislative Council

Robert V. Fleming, president, Riggs National Bank, Washington, D. C., chairman.

STATE CHAIRMEN:

Alabama—M. A. Vincentelli, president, The Alabama National Bank, Montgomery.

Arizona—Sylvan C. Ganz, executive vice-president, First National Bank of Arizona, Phoenix.

Arkansas—Jo Nichol, president, Simmons National Bank, Pine Bluff.

California—Lane D. Webber, vice-president, First National Trust & Savings Bank, San Diego.

Colorado — Alonzo Petteys, cashier, Farmers State Bank, Brush.

Connecticut—John B. Byrne, vice-president, Hartford-Connecticut Trust Co., Hartford.

Delaware—J. G. Townsend, Jr., president, Baltimore Trust Co., Selbyville.

District of Columbia—Robert V. Fleming, president, Riggs National Bank, Washington.

Florida—R. J. Binnicker, president, First National Bank, Tampa.

Georgia—Anton P. Wright, president, Savannah Bank & Trust Co., Savannah.

Idaho—O. M. Mackey, cashier, American Bank & Trust Co., Lewiston.

Illinois—W. R. McGaughey, vice-president, Citizens National Bank, Decatur.

Indiana—E. W. Stout, president, Fletcher American National Bank, Indianapolis.

Iowa—C. E. Beman, vice-president, Mahaska County State Bank, Oskaloosa.

Kansas—F. J. Miller, president, First National Bank, Ottawa.

Kentucky—John R. Downing, president, Citizens Union National Bank, Louisville.

Louisiana—J. F. Flournoy, Jr., vice-president, Whitney National Bank, New Orleans.

Maine—H. F. Libby, cashier, Pittsfield National Bank, Pittsfield.

Maryland—Heyward E. Boyce, president, Maryland Trust Co., Baltimore.

Massachusetts—Walter Tufts, president. Worcester County National Bank, Worcester.

Michigan—John W. Haarer, vice-president, City National Bank, Lansing.

Minnesota—C. Ben Brombach, assistant cashier, First National Bank, Minneapolis.

Mississippi—A. L. Jagoe, president, Iuka Guaranty Bank, Iuka.

Missouri—F. Lee Major, vice-president, Boatmen's National Bank, St. Louis.

Montana—E. J. Bowman, president, Daly Bank & Trust Co., Anaconda.

Nebraska—Arthur Jensen, vice-president, Nebraska National Bank, Minden.

Nevada—W. J. Harris, vice-president, First National Bank, Reno.

New Hampshire—Edward B. Stearns, cashier, Manchester National Bank, Manchester.

New Jersey—Levi H. Morris, president, Newton Trust Co., Newton.

New Mexico—E. M. Brickley, cashier, First National Bank, Carrizozo.

New York—Mark M. Holmes, president, Exchange National Bank, Olean.

North Carolina—Millard F. Jones, vice-president and cashier, Planters National Bank & Trust Co., Rocky Mount.

North Dakota—E. J. Weiser, president, First National Bank & Trust Co., Fargo.

Ohio—A. B. Taylor, president, Lorain County Savings & Trust Co., Elyria.

Oklahoma—F. P. Johnson, president, First National Bank & Trust Co., Oklahoma City.

Oregon—J. F. Daly, president, Hibernia Commercial & Savings Bank, Portland.

Pennsylvania—Archie D. Swift, presi-

dent, Central Penn National Bank, Philadelphia.

Rhode Island—Arthur L. Perry, vice-president, Washington Trust Co., Westerly.

South Carolina—F. F. Beattie, president, First National Bank, Greenville.

South Dakota—R. E. Driscoll, vice-president, First National Bank, Lead.

Tennessee—Thomas D. Brabson, president, First National Bank, Greeneville.

Texas—W. M. Massie, vice-president, Fort Worth National Bank, Fort Worth.

Utah—M. S. Eccles, president, First National Bank, Ogden.

Vermont—Levi P. Smith, vice-president, Burlington Savings Bank, Burlington.

Virginia—S. H. Plummer, cashier, First National Bank, Newport News.

Washington—H. W. MacPhail, president, Willapa Harbor State Bank, Raymond.

West Virginia—J. Howard McDonald, vice-president, Wheeling Bank & Trust Co., Wheeling.

Wisconsin—M. E. Baumberger, assistant vice-president, First Wisconsin National Bank, Milwaukee.

Wyoming—A. H. Marble, president, Stock Growers National Bank, Cheyenne.

In addition to the names listed above, the Federal Legislative Council is composed of the members of the Committee on Federal Legislation, Presidents and Vice-Presidents of the Divisions and Sections, and the Vice-Presidents of the Association and of the Trust, Savings, National Bank and State Bank Divisions in each state. The by-laws provide that in each state the elective Executive Council member of the Federal Legislative Council (or if there is no such member, the State Vice-President of the Association) shall be Chairman of a sub-committee to be composed of the members of the Federal Legislative Council in that state and such other members as the state chairman shall appoint.

Fiftieth Anniversary Committee

Lewis E. Pierson, chairman of board, Irving Trust Co., New York, N. Y., chairman.

P. W. Goebel, president, Fidelity Savings Trust Co., Kansas City, Mo.

Craig B. Hazlewood, vice-president, First National Bank, Chicago, Ill.

William A. Law, director, First National Bank, Philadelphia, Pa.

Robert F. Maddox, chairman, executive committee, First National Bank, Atlanta, Ga.

Thomas B. McAdams, executive manager, State-Planters Bank & Trust Co., Richmond, Va.

Thomas R. Preston, president, Hamilton National Bank, Chattanooga, Tenn.

J. H. Puelicher, president, Marshall & Ilsley Bank, Milwaukee, Wis.

George M. Reynolds, chairman, executive committee, Continental Illinois Bank & Trust Co., Chicago, Ill.

E. F. Swinney, chairman, First National Bank, Kansas City, Mo.

M. A. Traylor, president, First National Bank, Chicago, Ill.

Oscar Wells, chairman of board, First National Bank, Birmingham, Ala.

Secretary: W. Espey Albig, Deputy Manager, A. B. A., 22 East 40th Street, New York, N. Y.

Finance Committee

Francis H. Sisson, vice-president, Guaranty Trust Co., New York, N. Y., chairman.

Frank F. Brooks, president, First National Bank, Pittsburgh, Pa.

Charles A. Burns, assistant vice-president, First National Bank, Chicago, Ill.

P. D. Houston, chairman of board, American National Bank, Nashville, Tenn.

C. Sumner James, executive vice-president, Citizens National Trust & Savings Bank, Los Angeles, Cal.

Henry James, president, Farmers & Merchants National Bank, Abilene, Tex.

F. M. Law, president, First National Bank, Houston, Tex.

Willis G. Nash, vice-president, Irving Trust Co., New York, N. Y.

A. B. Whitney, president, Citizens Savings Bank, Upper Sandusky, Ohio.

Foundation Trustees

Leonard P. Ayres, vice-president, Cleveland Trust Co., Cleveland, Ohio.

John G. Lonsdale, president, Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.

J. H. Puelicher, president, Marshall & Ilsley Bank, Milwaukee, Wis.

Rome C. Stephenson, vice-president, St. Joseph County Savings Bank, South Bend, Ind.

Melvin A. Traylor, president, First National Bank, Chicago, Ill.

George Woodruff, chairman of board, First National Bank, Joliet, Ill.

Secretary: W. Espey Albig, Deputy Manager, A. B. A., 22 East 40th Street, New York, N. Y.

EX-OFFICIO—President, First and Second Vice-Presidents and Executive Manager of the A. B. A. and the educational director of the American Institute of Banking.

Insurance Committee

W. F. Keyser, secretary, Missouri Bankers Association, Sedalia, Mo., chairman.

Charles H. Ayres, vice-president, Peoples Wayne County Bank, Detroit, Mich.

William J. Eck, vice-president, Chase National Bank, New York, N. Y.

Frank K. Houston, first vice-president, Chemical Bank & Trust Co., New York, N. Y.

Reuben A. Lewis, Jr., second vice-president, Continental Illinois Bank & Trust Co., Chicago, Ill.

Advisory Member: Thomas B. Paton, General Counsel, A. B. A., 22 East 40th Street, New York, N. Y.

Secretary: James E. Baum, Deputy Manager, A. B. A., 22 East 40th Street, New York, N. Y.

Committee on Membership

George V. Drew, vice-president, The Chase National Bank, New York, N. Y., chairman.

W. F. Augustine, vice-president, National Shawmut Bank, Boston, Mass.

Frank L. Carson, president, First National Bank, Wichita, Kan.

Fred A. Cuscaden, vice-president, Northern Trust Co. Bank, Chicago, Ill.

Gilbert L. Daane, president, Grand Rapids Savings Bank, Grand Rapids, Mich.

M. S. Eccles, president, First National Bank, Ogden, Utah.

R. W. Holt, president, Bank of Craig, Craig, Mo.

C. J. Kirschner, vice-president, Markle Banking & Trust Co., Hazleton, Pa.

Walter G. Lacy, president, Citizens National Bank, Waco, Tex.

Will F. Morrish, vice-president, Bank of America, Nat. Trust & Savs. Assn., San Francisco, Cal.

Harry H. Pond, president, Plainfield Trust Co., Plainfield, N. J.

Edward A. Seiter, vice-president, Fifth Third Union Trust Co., Cincinnati, Ohio.

Protective Committee

Names of this committee not made public.

Committee on State Legislation

Walter L. Dunham, president, Detroit Savings Bank, Detroit, Mich., chairman.

Ira W. Barnes, president, Ninth Bank & Trust Co., Philadelphia, Pa.

Heyward E. Boyce, president, Maryland Trust Co., Baltimore, Md.

William J. Couse, president, Asbury Park National Bank & Trust Co., Asbury Park, N. J.

Herbert L. Horton, vice-president, Iowa-Des Moines National Bank & Trust Co., Des Moines, Iowa.

A. C. Hughes, president, Monterey Co. Trust & Savings Bank, Salinas, Cal.

A. L. Jagoe, president, Iuka Guaranty Bank, Iuka, Miss.

J. Howard McDonald, vice-president, Wheeling Bank & Trust Co., Wheeling, W. Va.

A. B. Merrill, president, First Trust and Deposit Co., Syracuse, N. Y.

William P. O'Neal, vice-president, Canal Bank and Trust Co., New Orleans, La.

Leonard L. Titus, vice-president and treasurer, Hadley Falls Trust Co., Holyoke, Mass.

Matt Weightman, Jr., vice-president, Fidelity Savings State Bank, Topeka, Kan.

EX-OFFICIO:

Chairman, State Legislation, National Bank Division: C. J. Lord, president, Capital National Bank, Olympia, Wash.

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State Legislative Council

Walter L. Dunham, president, Detroit Savings Bank, Detroit, Mich., chairman.

STATE CHAIRMEN

Alabama—M. A. Vincentelli, president, The Alabama National Bank, Montgomery. (*Continued on page* 255)

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Arizona—Sylvan C. Ganz, executive vice-president, First National Bank of Arizona, Phoenix.

Arkansas—F. W. Niemeyer, president, Bankers Trust Co., Little Rock.

California—A. C. Hughes, president, Monterey Co. Trust & Savings Bank, Salinas.

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Michigan—Walter L. Dunham, president, Detroit Savings Bank, Detroit.

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Mississippi—A. L. Jagoe, president Iuka Guaranty Bank, Iuka.

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Nevada—W. J. Harris, vice-president, First National Bank, Reno.

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New Jersey—William J. Couse, president, Asbury Park National Bank & Trust Co., Asbury Park.

New Mexico—E. M. Brickley, cashier, First National Bank, Carrizozo.

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Oregon—J. F. Daly, president, Hibernia Commercial & Savings Bank, Portland.

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South Dakota—R. E. Driscoll, vice-president, First National Bank, Lead.

Tennessee—Thomas D. Brabson, president, First National Bank, Greeneville.

Texas—Charles A. Fisk, president, Amarillo Bank & Trust Co., Amarillo.

Utah—M. S. Eccles, president, First National Bank, Ogden.

Vermont—Levi P. Smith, vice-president, Burlington Savings Bank, Burlington.

Virginia—S. H. Plummer, cashier, First National Bank, Newport News.

Washington—Guy C. Browne, president, Columbia Valley Bank, Wenatchee.

West Virginia—J. Howard McDonald, vice-president, Wheeling Bank & Trust Co., Wheeling.

Wisconsin—Norman T. Gill, secretary, Madison Trust Co., Madison.

Wyoming—A. H. Marble, president, Stock Growers National Bank, Cheyenne.

In addition to the names listed above, the State Legislative Council is composed of the members of the Committee on State Legislation, Presidents and First Vice-Presidents of the Divisions and Sections, and Vice-Presidents of the Association and of the Trust, Savings, National Bank and State Bank Divisions in each state. The by-laws provide that in each state the elective Executive Council member of the State Legislative Council (or if there is no such member, the state vice-president of the Association) shall be chairman of a subcommittee to be composed of the members of the State Legislative Council in that state and such other members as the State Chairman shall appoint.

Special Committee on Section 5219 U. S. Revised Statutes

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John W. Barton, chairman, Central National Bank, Minneapolis, Minn.

Charles P. Blinn, Jr., vice-president, Philadelphia National Bank, Philadelphia, Pa.

Walter S. Bucklin, president, National Shawmut Bank, Boston, Mass.

Edward Elliott, vice-president, Security-First National Bank, Los Angeles, Cal.

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R. M. Hardy, president, Yakima First National Bank, Yakima, Wash.

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Waldo Newcomer, chairman, executive committee, Baltimore Trust Co., Baltimore, Md.

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Arkansas—F. W. Niemeyer, president, Bankers Trust Co., Little Rock.

California—A. C. Hughes, president, Monterey County Trust & Savings Bank, Salinas.

Colorado—Alonzo Petteys, cashier, Farmers State Bank, Brush.

Connecticut—John B. Byrne, vice-president, Hartford-Connecticut Trust Co., Hartford.

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District of Columbia—F. G. Addison, Jr., president, Security Savings & Commercial Bank, Washington.

Florida—R. J. Binnicker, president, First National Bank, Tampa.

Georgia—Anton P. Wright, president, Savannah Bank & Trust Co., Savannah.

Idaho—O. M. Mackey, cashier, American Bank & Trust Co., Lewiston.

Illinois—William George, president, Old Second National Bank, Aurora.

Indiana—Frank B. Bernard, president, Merchants National Bank, Muncie.

Iowa—Herbert L. Horton, vice-president, Iowa-Des Moines National Bank & Trust Co., Des Moines.

Kansas—W. A. Hayes, president, Farmers & Merchants State Bank, La-Crosse.

Kentucky—John R. Downing, president, Citizens Union National Bank, Louisville.

Louisiana—William P. O'Neal, vice-president, Canal Bank & Trust Co., New Orleans.

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Missouri—Thornton Cooke, president, Columbia National Bank, Kansas City.
Montana—E. J. Bowman, president, Daly Bank & Trust Co., Anaconda.
Nebraska—Arthur Jensen, vice-president, Nebraska National Bank, Minden.
Nevada—W. J. Harris, vice-president, First National Bank, Reno.
New Hampshire—Edward B. Stearns, cashier, Manchester National Bank, Manchester.
New Jersey—William J. Couse, president, Asbury Park National Bank & Trust Co., Asbury Park.
New Mexico—E. M. Brickley, cashier, First National Bank, Carrizozo.
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North Dakota—E. J. Weiser, president, First National Bank & Trust Co., Fargo.
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Oklahoma—Charles H. Fawks, Jr., cashier, First National Bank, Snyder.
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Rhode Island—Arthur L. Perry, vice-president, Washington Trust Co., Westerly.
South Carolina—F. F. Beattie, president, First National Bank, Greenville.
South Dakota—R. E. Driscoll, vice-president, First National Bank, Lead.
Tennessee—Thomas D. Brabson, president, First National Bank, Greeneville.
Texas—W. M. Massie, vice-president, Fort Worth National Bank, Fort Worth.
Utah—M. S. Eccles, president, First National Bank, Ogden.
Vermont—Levi P. Smith, vice-president, Burlington Savings Bank, Burlington.
Virginia—S. H. Plummer, cashier, First National Bank, Newport News.
Washington—Guy C. Browne, president, Columbia Valley Bank, Wenatchee.
West Virginia—J. Howard McDonald, vice-president, Wheeling Bank & Trust Co., Wheeling.
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Max B. Nahm, vice-president, Citizens National Bank, Bowling Green, Ky.

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Walter E. Robb, president, Burlington City Loan & Trust Co., Burlington, N. J.

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Paul M. Warburg, chairman of board, International Acceptance Bank, New York, N. Y.

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Marvin E. Holderness, vice-president, First National Bank, St. Louis, Mo.

J. Arthur House, president, Guardian Trust Co., Cleveland, Ohio.

Ben Johnson, president, Commercial National Bank, Shreveport, La.

Grant McPherrin, president, Central National Bank & Trust Co., Des Moines, Iowa.

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W. E. Purdy, vice-president, Chase National Bank, New York, N. Y.

Director: Gurden Edwards, 22 East 40th Street, New York, N. Y.

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John R. Downing, president, Citizens Union National Bank, Louisville, Ky.

Robert V. Fleming, president, Riggs National Bank, Washington, D. C.

Charles S. McCain, chairman of board, Chase National Bank, New York, N. Y.

Edmund S. Wolfe, president, First National Bank & Trust Co., Bridgeport, Conn.

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Canal Zone—G. S. Schaeffer, second vice-president, Chase National Bank, Cristobal.

Hawaii—A. W. T. Bottomley, president, Bishop First National Bank, Honolulu.

Philippine Islands — F. Borromeo, president, Bank of the Philippine Islands, Manila.

Porto Rico—To be elected at next meeting of Porto Rico Bankers Association.

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China—Frank J. Raven, president, American Oriental Banking Corp., Shanghai.

Cuba—John G. Parriker, manager, First National Bank of Boston, Havana.

England—Olus Berntsen, general manager, Bankers Trust Co., London.

France—J. B. Close, vice-president, Bankers Trust Co., Paris.

Isle of Pines—John A. Miller, president, National Bank & Trust Co., Nueva Gerona.

Mexico—A. Mascarenas, managing director, Banco de Mexico, Mexico City.

Newfoundland — Angus A. Werlich, manager, Bank of Montreal, St. Johns.

Panama—Ernesto De La Guardia, president, Banco Nacional, Panama.

Association Activities

Community Trust Survey

THE Trust Company Division, through its committee on community trusts, has published a survey of existing community trusts and methods for developing new foundations. Fourteen statistical tables and several charts illustrate the text and valuable data from cities throughout the country are included in appendices. The publication contains sixty-eight pages.

Facts about the history, growth and present status of community trusts are cited to show the importance of the movement. Forty-one trusts were administering principal funds on December 31, 1930, and thirty of these made cash distributions during the year of $994,282. This represents an increase of 16.6 per cent over the amount distributed in 1929. On Jan. 1, 1921, the total of principal funds in community trusts was more than $7,000,000. Ten years later, on Jan. 1, 1931, the total figure stood at $32,318,164, an increase of 350 per cent. This, of course, takes into account only the gifts in hand and does not reflect in any way the large gifts which community trusts will receive in the future, and indications are that future growth will be at an increasingly rapid rate.

Trust Meeting Stirs Interest

ONE hundred and seventy-five delegates were registered for the Seventh Mid-Continent Trust Conference in Grand Rapids, Mich., September 17 and 18. The sessions were unusually well attended and the program included addresses on a variety of practical trust problems. The addresses stimulated considerable discussion and delegates participated in questions and answers from the floor which followed the presentation of each subject. Senator Arthur H. Vandenberg of Michigan addressed the delegates at their closing banquet.

Pacific Trust Meeting

SPEAKERS from the East, Middle West and Pacific coast are included in the program of the Ninth Regional Trust Conference for Pacific and Rocky Mountain states to be held in San Francisco, Oct. 21 to 23. Headquarters will be at the Palace Hotel. Topics to be discussed by speakers are estate planning, the relations between trust companies and the public, the preservation of estates, the corporate trustee as an essential factor in modern business, discretionary powers, taxation, investments, living trusts, co-mingled funds, life insurance trusts, obtaining new business and the question of costs and charges. R. M. Sims, vice-president and trust officer of the American Trust Company, San Francisco, and chairman of the executive committte, Trust Division, American Bankers Association, will be general chairman of the conference.

Southern Management Program

THE program being arranged for the Southern Bank Management Conference in Nashville, Tenn., November 5 and 6, will be unusually complete. It is planned to hold three sessions the first day with a final, concluding session on the following morning, and each will have its special key-

(*Continued on page 297*)

President Hoover's Plan

National Institution With $500,000,000 to Rediscount Banking Assets Not Eligible at the Federal Reserve Banks, Thus Assuring Liquidity and Enabling Banks to Carry On Without Restriction of Credits or Sacrifice of Assets. An Emergency Credit Corporation.

EARLY on the morning of Oct. 7 President Hoover issued to the public the following statement explaining his plan for relieving the business depression:

The prolongation of the depression by the succession of events in Europe, affecting as they have both commodity and security prices, has produced in some localities in the United States an apprehension wholly unjustified in view of the thousand-fold resources we have for meeting any demand.

Foolish Alarms

FOOLISH alarm in these sections has been accompanied by wholly unjustifiable withdrawal of currency from the banks.

Such action results in limiting the ability of the banks in these localities to extend credit to business men and farmers for the normal conduct of business but beyond this to be prepared to meet the possibility of unreasoning demands of depositors, the banks are compelled to place their assets in liquid form by sales of securities and restriction of credits so as to enable them to meet unnecessary and unjustified drains. This affects the conduct of banking further afield.

It is unnecessary to specify the unfortunate consequences of such a situation in the districts affected both in its further effect on national prices of agricultural products, upon securities and upon the normal conduct of business and employment of labor.

It is a deflationary factor and a definite impediment to agricultural and business recovery.

No Justification for View

THERE is no justification for any such situation in view of the strength of our banking system, and the strong position of our Federal Reserve System. Our difficulty is a diffusion of resources and primary need is to mobilize them in such a way as to restore in a number of localities the confidence of the banker in his ability to continue normal business and to dispel any conceivable doubt in the minds of those who do business with him.

Outline of Proposals

IN order to deal with this wholly abnormal situation and to bring about an early restoration of confidence, unity of action on the part of our bankers and cooperative action on the part of the government is essential. Therefore, I propose the following definite program or action to which I ask our citizens to give their full cooperation.

1. To mobilize the banking resources of the country to meet these conditions, I request the bankers of the nation to form a national institution of at least $500,000,000. The purpose of this institution to be the rediscount of banking assets not now eligible for rediscount at the Federal reserve banks in order to assure our banks, being sound, that they may attain liquidity in case of necessity, and thereby enable them to continue their business without the restriction of credits or the sacrifice of their assets.

Proposals Submitted

I HAVE submitted my proposals to the leading bankers of New York. I have been advised by them that it will receive their support, and that at my request they will assume the leadership in the formation of such an organization. The members of the New York Clearing House Association have unanimously agreed to contribute their share by pledging $150,000,000, which is 2 per cent of their net demand and time deposits.

I have been assured from other large centers, as far as I have been able to reach, of their support also. I consider that it is in the national interest including the interest of all individual banks and depositors that all the banks of the country should support this movement to their full responsibility.

It is a movement of national assurance and of unity of action in an American way to assist business, employment and agriculture.

2. On September 8 I requested the governors of the Federal reserve banks to endeavor to secure the cooperation of the bankers of their territory to make some advances on the security of the assets of closed banks or to take over some of these assets in order that the receivers of those banks may pay some dividends to their depositors in advance of what would otherwise be the case pending liquidation.

A Community Responsibility

SUCH a measure will contribute to free many business activities and to relieve many families from hardship over the forthcoming winter, and in a measure reverse the process of deflation involved in the tying up of deposits. Several of the districts have already made considerable progress to this end, and I request that it should be taken up vigorously as a community responsibility.

3. In order that the above program of unification and solidarity of action may be carried out and that all parts of the country be enlisted, I request the governors of the Federal reserve banks in each district to secure the appointment of working committees of bankers for each reserve district to cooperate with the New York group and in carrying out the other activities which I have mentioned.

4. I shall propose to the congress that the eligibility provisions of the Federal Reserve Act should be broadened in order to give greater liquidity to the assets of the banks, and thus a greater assurance to the bankers in the granting of credits of enabling them to obtain legitimate accommodation on sound security in times of stress. Such measures are already under consideration by the senate committee upon currency and banking.

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Federal Reserve Bank Credits to Germany and England

By EDMUND PLATT

Vice-President, Marine Midland Corporation; Formerly Vice-Governor, Federal Reserve Board

Extensions of Credit from Federal Reserve to Foreign Central Banks Are Unusually Well Safeguarded and Do Not Have Any Appreciable Effect on the Volume of Funds Available to Domestic Borrowers. Proceeds Spent in This Country, Not Abroad.

THERE appear to be some persons who believe that when the Federal reserve banks extend credits to foreign central banks, as was the case recently with the Reichsbank in Germany and the Bank of England, this in some way deprives American banks or American business of credit.

Certainly no one who is at all familiar with the present position of the Federal reserve banks, their tremendously strong gold reserves, the largest central bank gold reserves in the world, and the comparatively small demand upon them for local accommodation could possibly believe that there is any basis whatever for such an opinion. Even if these credits should be tied up for a considerable time it would make no appreciable difference. They are much more carefully safeguarded than ordinary credits and there is ample provision for their repayment, not in depreciated pounds or marks but in gold which the governments of Germany and of England are bound to provide when necessary.

Money Spent Here

IT may be well at the outset to state just how these credits are set up and how they are used. Probably 999 persons out of 1,000 are under the impression that since they were credits to central banks in other countries the money was spent in those countries. i. e., in Germany or in England. It was not. It was spent in our own country, mostly in New York, and added something to the already high reserve positions of our own banks. The form these credits took was as follows, using the more recent Bank of England credit as an example:

The Federal Reserve Bank of New York gave the Bank of England what was practically a deposit credit on its books and the Bank of England drew on it from time to time not to make disbursements in London but to purchase sterling exchange in New York where it needed support. As the funds were used prime sterling bills were sold to the Federal reserve bank by the Bank of England, from its portfolio, the bills being held earmarked in the Bank of England.

It is interesting to attempt to trace these credits through the weekly statements of the Federal reserve banks. The first of them, that to the Reichsbank in Germany, was extended on June 25 in cooperation with the Bank of England, the Bank of France and the Bank for International Settlements, each of them taking $25,000,000. Immediately preceding the granting of this credit Germany made two shipments of gold to this country, and the Federal reserve banks advanced against this gold $16,700,000, as shown in the Federal reserve statement as of June 24. This was repaid when the gold arrived. Our monetary gold stock was increased that week by $22,000,000 and the following week by $39,000,000, not all of which, of course, came from Germany.

The Reichsbank immediately availed itself of the credit extended, selling to the Federal reserve banks prime commercial bills out of its own portfolio as fast as the credit was used in New York. The effect of the extension of this credit, however, was so infinitesimally small that it was almost impossible to find evidence of it in any of the immediately succeeding Federal reserve statements. That of July 1, for instance, showed a decrease of $3,000,000 in "bills bought" and a decrease of "total reserve bank credit" of $10,000,000, in spite of the fact that the reserve banks added to their portfolio $44,000,000 of government securities. About the only discoverable evidence of the extension of the credit was to be found in the fact that there was an increase of about $12,000,000 in bills held by the Federal reserve banks of maturity from sixty-one to ninety days, and this on the assumption that the bills sold by the Reichsbank to the Federal reserve banks were probably mostly of ninety-day maturity, whereas American acceptances offered to the Federal Reserve Bank of New York are generally of shorter maturities.

Relatively Small Item

THE following week, July 8, "bills bought" again decreased; this time by $11,000,000 though there was some further increase in the number of ninety-day bills held. In short the effect of the extension of this $25,000,000 credit so far as our own credit position is concerned was practically nothing. It required a microscope and considerable familiarity with Federal reserve statements to find any evidence of it whatever. Incidentally I may add that in periods of active business it is not unusual for one of the large member banks in New York to borrow more from the Federal Reserve Bank of New York in one day than the total amount of the credit extended to the Reichsbank.

On Aug. 1 the Federal Reserve Bank of New York with other Federal reserve banks participating joined the Bank of France in extending a credit to the Bank of England amounting to $250,000,000, our share of it being $125,000,000. Although this was a much larger credit there was very little indication of it in the Federal reserve statements for several weeks. "Bills bought in the open market" on Aug. 5 showed a small decrease and it was not until the twelfth that they showed a substantial increase of $70,000,000. Meanwhile there was some increase in an item entitled "due from foreign banks" which had increased from about $700,000 to about $26,000,000

on the twelfth, apparently representing a deposit in the Bank of England awaiting investment in bills. This item at any rate showed a decrease of $15,000,000 the next week, Aug. 19, and "bills bought" showed an increase of $19,000,000. These details, interesting perhaps only to students of Federal reserve figures, serve to bring out clearly that both of these transactions together produced scarcely a dent on our own reserve position, and do not interfere in the slightest degree with the ability of the Federal reserve banks to extend to their member banks any amount of credit that they could possibly need in case of a revival of business or in case of an increase in demand. The foreign central bank credits might have been several times greater without any effect of consequence.

Certain Legal Aspects

THE general policy of cooperation with foreign central banks and extensions of credit between foreign central banks was admirably explained by the late Benjamin Strong in the hearings before the House Banking and Currency Committee, in April, 1926, in connection with the $200,000,000 gold credit extended to the Bank of England the year before as an aid in the re-establishment of the pound sterling on a gold basis. The credit was arranged to run for two years, from May, 1925, but the Bank of England had so thoroughly prepared for every contingency that it was unnecessary to use it. There was never any criticism from responsible quarters of the usefulness of this credit or of similar credits extended to other central banks for the same purpose later, but there was some criticism to the effect that Federal reserve banks had no authority to extend such credits. This matter of legal authority was so thoroughly dealt with by Governor Strong that the members of the House Banking and Currency Committee, which included several excellent lawyers, did not undertake to question the soundness of his statement. The authors of the Federal Reserve Act may perhaps not have had in mind this form of cooperation between the Federal reserve banks and the central banks of Europe but neither did they contemplate the great war and the purchase of Government securities in large volume by the Federal reserve banks and many other things for which the Act, nevertheless, gives ample authorization. Much of what Governor Strong said at that time had reference to the disordered exchanges that resulted from depreciation of currencies in Europe following the war, which had a very serious effect on our own foreign trade. We then were helping to restore the gold standard and to stabilize exchanges wherever we could. Now we are seeking to prevent exchanges from becoming again demoralized, and this action is as much for our own benefit as for the benefit of the countries to which we have extended credits. As Governor Strong said, such a policy is proper for this country "if for no other reason than it will be one of the chief, if not the most constructive, step we can take to preserve our own trade." He explained further to the committee that the Federal reserve bank, in extending a gold credit to the Bank of England, was only doing what the Federal Reserve Act said that it should do, namely, deal in gold, open a deposit account and buy bills.

"The provisions of the Federal Reserve Act," he said at that time, "relating to dealing in gold, to opening accounts in foreign countries, buying foreign bills and checks and cable transfers, had but one object in view, and could have had but one object in view, namely, to provide a stabilizing influence upon exchange rates and effect some regulation of the inflow and outflow of gold. This is the traditional function of the banks of issue which are the custodians of the gold reserves of the nations, because disorder in the exchanges great enough to cause premiums and discounts above and below the gold export points results in flows of gold which sometimes become a menace to the stability of the monetary position. The regulation of the gold movement is partly effected by changes of discount rate, but when such gold movements become excessive, reliance upon discount rate alone may bring about serious domestic disturbance, resulting from high interest rates and sharp contraction of credit.

"The Federal Reserve Act contemplated that very situation, and gave the Federal reserve banks power to deal with it by these reciprocal accounts; by giving them the power to accumulate balances abroad at times and to have their foreign correspondents accumulate balances with them; by giving the reserve banks the power to deal in gold, buy foreign bills, etc."

Unfortunately recent events in England have shown that our efforts to prevent the depreciation of the pound sterling have been unsuccessful, but they were nevertheless helpful and when confidence returns the reserve banks could easily extend further credits.

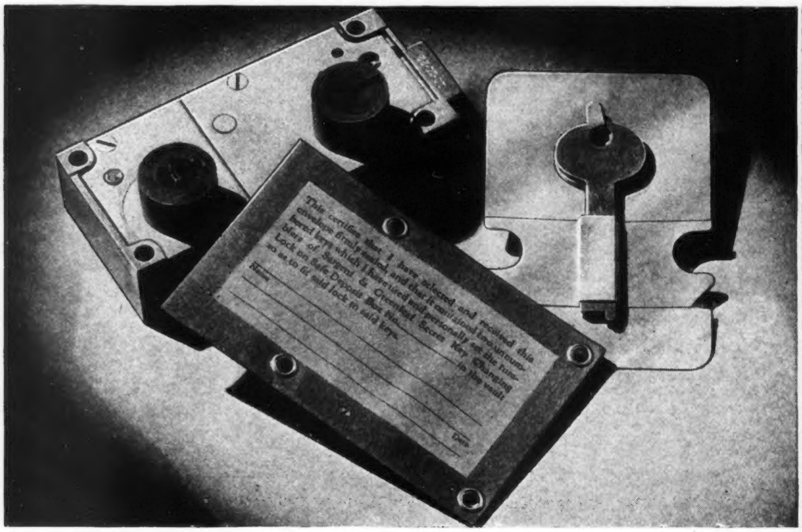
The recent sales of American acceptances by some of the foreign central banks and the earmarking of gold have no relation to the credits previously extended to the Reichsbank and the Bank of England, though they may be said to have been caused by the fact that the credits to the Bank of England failed to accomplish their main purposes. The Reserve banks are amply able to take care of these matters, and it is interesting to note that the gold actually exported up to Sept. 30 has been much more balanced by imports received since the Bank of England credit was made. The earmarked gold figures in the statements as a reduction of "monetary gold stock," but it remains to be seen how much of it will stay here and how much will be exported. In spite of reductions of gold stock of $118,000,000 shown in the reserve statement for Sept. 23 and of $158,000,000 in the statement for Sept. 30 our monetary gold stock remained $228,000,000 greater than at this time last year, and it was very much larger than necessary then. Probably it will begin to increase again as soon as exchanges become more stable and the period of window dressing passes.

Assessment Against 22,800 Shareholders

UNDER the double liability clause of the New York State Bank law Joseph A. Broderick, state Superintendent of Banks, recently levied an assessment of 100 per cent upon the 22,800 holders of shares in the defunct Bank of the United States.

The shares outstanding total 1,010,000 and the par value is $25, indicating the assessment, if fully collected, would yield $25,250,000 for distribution to depositors. October 15 was fixed as the final date of payment and present estimates point to about half of the maximum sum being collected by that time. The assessment against stockholders followed by one month the announcement of a suit for $60,000,000 instituted by the superintendent against the forty directors. This suit is expected to yield in the neighborhood of $5,000,000, which will be used to augment the cash, loans, securities and other assets available for distriuibution to depositors.

More interesting than the assessment itself, perhaps, was the fact that few of the stockholders had ever heard of sections 80 and 120 of the state law under which the action was taken. Vigorous protests were made on behalf of stockholders to Governor Roosevelt.



School Savings Aid Families

(*Continued from page 247*)

some districts for pupils to withdraw for spending a large part of their deposits, thus defeating the purpose of school savings. This practice was unwittingly fostered sometimes by the depositary banks themselves; for banks have ever given more attention to securing new customers than to holding old ones. The new business department, ambitious to make records, produces new business, but once obtained it might properly come under a conservation department, for mortality during the first eighteen months is high.

Budget Supplemented

DURING the past two years these casual withdrawals have been supplemented with increasing frequency by the withdrawals on the part of the most careful in order to afford succor to their families whose income has been reduced or else rendered negligible. A glance at the figures given in paragraphs below show that pupils of districts which since the inauguration of school savings have increased bank balances year after year are now withdrawing not only the deposits made this year but also a part of those made in previous years.

The net savings of $130,000 two years ago in Pittsburgh, Pa., gives way this year to a loss of $1,200. In Atlanta, Ga., the handsome net savings of more than $33,000 is replaced this year by a loss of over $6,000.

Hartford, Conn., an industrious and forward looking community showed net savings a year ago equal to more than half of the total deposits. Although the deposits increased more than 10 per cent this year, the withdrawals dipped into the reserves set up in former years.

The stories from all over the United States differ in degree and not in kind. It is not surprising that wonder sometimes intrudes as to whether a condition of mind rather than an actual physical situation may not have at times influenced deposits. The successful manager of school savings in a populous district writes:

"This has been a difficult year in which to carry on this work because of the endless 'talk' about the depression, which we feel sure has needlessly affected the work in some districts. It has been, of course, actually impossible for many of the children to save much, if any, money, but in some schools where a decrease might naturally be expected there is a good increase."

Despite the pessimistic atmosphere which during the year settled like a cloud over the cities of this country, deposits per pupil averaged only 5.7 per cent below that of the preceding year. The effect of the pessimistic talk proved more imaginary than real as evidenced by the volume of deposits. Not downheartedness but actual need would cause withdrawals. The withdrawals of $5,225,000 more than last year, mostly by pupils who were in attendance during both years, marks the extent to which school savings came to supplement the family earnings. School savings managers are at present rich in stories of human interest growing out of this situation.

What of the Future?

FOR more than ten years the pupils in schools all over the country have received instruction in the meaning and use of money; the savings amassed as a result of the instruction have demonstrated the wisdom of school savings, but what of the future? Will school authorities continue to pay salaries to teachers for instruction and authorize time for banking if savings, the by-product, the yardstick which to some degree at least indicates the success of the instruction, do not show a net increase? Will bankers be willing to have their institutions continue as depositaries for school savings when the considerable expense to the banks is set over against diminishing deposits by the children, particularly so at a time such as this when sound banks find themselves with heavy deposits for which there is slight demand, and that only at a low rate?

The situation holds grave danger. School authorities never have an overplus of money at their disposal irrespective of whether they have the right of separate taxation or whether they are dependent upon another body for the funds which they spend. There is always the likelihood that the pressure of economy will drive out or curtail those activities which are regarded as marginal. The volume of deposits furnishes the measure of the success of the instruction in thrift and the use of money. If deposits decline the value of the instruction may be questioned, although it may be of far greater practical benefit and more appreciated now than when earnings were high. In other words, deposits depend primarily on earnings and only secondarily on the quality or quantity of instruction.

Expense a Factor

THE attitude of the bank, arising from a different motive, may coincide with that of the school. When money is plentiful and cheap the bank may reduce the rate of interest both to decrease the cost of money to the bank and to discourage deposits. A bank hesitates to cut its dividend rate. Bankers know that a bank which is not profitable is likewise not safe. Therefore when business is good it never pays out nearly all its earnings in dividends. When earnings are low as at present it aims to eliminate every expense in order that it may earn its dividend. When a manufacturing concern has small earnings it does not hesitate to omit a dividend. A banker feels that his bank would be injured if a dividend were not declared, or a substantial sum set aside for the guaranty fund or surplus.

Since opportunists are likely to be found in every field of activity it would not be surprising if among both bankers and educators there might be those who look at school savings simply as a project of today and to be judged solely from the viewpoint of financial profit and loss.

If school savings are to come safely through the present crisis in finance and industry, they must be given conscious thought by their friends among both the bankers and the school authorities to the end that the basic idea be not forgotten, and the actual money deposited or remaining as net savings be relegated to the place where it properly belongs, simply a by-product, although a very valuable and potent one of instruction in the meaning and use of money.

New Trust Division Publications

The Trust Division of the American Bankers Association has published Insurance Trust Bulletin No. 6 and a new and revised specimen of Unfunded Life Insurance Trust Agreement, both of which have been prepared by the Division's Committee on Insurance Trusts. The bulletin is a short manual of procedure in the handling of matters of joint interest to trust companies and insurance companies. The specimen form of the insurance agreement, offers a text improved by the practical experience of the past few years. Copies of the bulletin may be obtained for 10 cents a copy and copies of the agreement for 15 cents, from the Trust Division, American Bankers Association, 22 East Fortieth Street, New York.

Better Retail Credit Risks

(*Continued from page* 197)

good credit risks, eventually they will be lacking in the banking support that we want them to get.

Less Each Year

IT is significant that in 1927, 1928, and 1929, which were wonderful business years in this country from a volume standpoint and also from a profit-making standpoint, our dealers were each year, as groups, making less money. It became apparent that something would have to be done about this matter or we would not have the bank credit that we so urgently needed.

We originated a standardized booking system. We saw to it that those booking systems were installed in our dealerships. Sometimes we had to pay for it. Most of the time the dealer paid for it. We felt that unaudited figures were not of much value as a base for important conclusions. Consequently, if we were going to make our figures count we had to get them audited. So we set up a subsidiary of the General Motors Corporation called "Motors Accountants," and we employed some 600 field men who now audit at proper intervals the accounts of those dealers that we have included in this movement. The latter already represent about 75 per cent of our total volume.

We charge our dealers $15 a day for the service of the man who comes to their place. That does not pay the bill but that is about as much as we can get dealers to pay and have them feel right about it, so we pay the rest ourselves and this year it will cost the corporation about $1,250,000.

Will Continue

IN spite of the times, in spite of our desire for economy, in spite of everything, this movement is so constructive that we are going to spend $1,250,000 again next year. We have set up as a result of this work what is known as a dealers' control sheet and it is very simple. In the operation of one of our dealerships a dealer is bound to have a fixed loss. He has his fixed expense and if we deduct from his fixed income the fixed expense, he always starts out with a fixed loss.

When he begins selling his cars he has a variable income from the sale of his cars and it is possible to estimate about what it is going to be and find out how many cars he has to sell with that expense in order to break even. Then if he is going to make some money, he has to sell a few more cars.

It took a long time to evolve a simple form that any of our dealers, whether they have been accountants or not, can understand. There is not any use of attempting in a practical way to work with men on something that is too elaborate and something they can not understand. Consequently, in 75 per cent of our volume, our dealers always know how many cars they must sell to break even.

A Poor Year

WE had a low year. We will sell only between 1,700,000 and 1,800,000 passenger cars. The volume has been low in 1931, but up until Sept. 1 our Chevrolet dealers under this control plan made $10,000,000 more as a group than they did with the higher volume of 1930, and they made almost the same amount on this very low volume that they did in 1929.

We had another division in our business where, in 1930 up until Aug. 1, that group of dealers had lost $2,500,000. This year on Aug. 1 they had made also that much and their volume was 25 per cent less than it was last year.

There is enough inefficiency in retail businesses that, if they are left uncontrolled, a great many failures can take place, previously accumulated capital can be dissipated, and men who were formerly good credit risks can become bad credit risks. By taking hold of the situation and working with it, however, we can make the bulk of them good credit risks and make them worthy of bank credit.

Aid in Other Ways

WE also formed another subsidiary called "Motors Holdings" and through that investment company we are deliberately investing some of our money with automobile dealers in our family. We are not doing that because we want to go into the retail business but in an attempt to keep out of the retail business. We feel that if we have a block of our money invested in a representative number of these franchises, we can get a much better "feel" of the situation, know what our policies ought to be, and do the big job we are after much better than if we are only dealing with the other man's money.

In the whole realm of industry it would be a wonderful thing if effective business management could be put into all small retail establishments. That is a very difficult thing to do. If a manufacturer only sells a retailer part of his stock, the manufacturer can hardly be Santa Claus and take care of the whole of the retailer's business.

At this new stage of development, such a piece of progress as injecting good business management into retail establishments can only be accomplished if one man or one small group of men have made up their minds that they are going to spend the money, have the patience, and use the willpower that will cause such a thing to be adopted. And in our case we have had the experience; we have our plans set; we are spending the money, we are investing money and have the firm intention that if intelligence and hard work will make automobile dealers prosperous and good banking risks, we intend to put that job over for the first time in industry.

Good Influence

IF we do it, we hope we will have an effect which will encourage other manufacturers. The movement will spread over the country and American business will be sounder because, after all, the final man that takes care of American business is the retailer in contact with the ultimate consumer. And those who are superimposed on him, often forget that he is the man that we finally owe just about everything to. Even though we feel comfortable in our own particular activity we should give a lot of attention to the soundness and solidity of that agent who finally passes our goods on to the public that pays the money.

Anything that we can contribute from our experience is available to any one else that can use it. Let bankers ask any General Motors dealer if he is using our service and if he has his control sheet. A banker could not do any better service than to form in a dealer's business life the habit of coming to the bank once a month or once a quarter and showing the audited records.

Let the manufacturers of the country and the bankers of the country join hands in giving retailers all possible solidity and strength, until they can help themselves through their own initiative again.

Farm Board's Accomplishments

(Continued from page 201)

financial assistance of more than $300,000,000—aside from loans for the wheat and cotton stabilization operations — to 112 cooperative associations, many national or regional in scope, with hundreds of local cooperative associations as members. Of the money borrowed from the revolving fund, these cooperatives have paid back nearly $170,000,000 and up to the present time only two cooperatives have failed, both of which were comparatively small organizations. The collateral on all of these loans could be liquidated today on the present low level of prices at a loss of less than 5 per cent of the total amount of the loans made. The percentage of failures of cooperatives will compare favorably with that of other business organizations. When you consider that practically all loans made by the Board are secondary loans, and made during a period of continually declining commodity prices, the record is good. How many other American financial institutions could say the same today? An important function of the Board is the encouraging of sound financial cooperative structures and honest and efficient management. We are making progress along this line.

In Competition With Banks

MUCH has been said about the Board furnishing cheap money in competition with local banks. This has been grossly exaggerated. Under the law loans can only be made to or through cooperatives and it has been a Board policy from the beginning to insist on the cooperative borrowing its initial needs through commercial and intermediate credit banks.

However, in many agricultural sections, the local banks have been unable to meet the legitimate credit needs of the community and it has become necessary for cooperatives, with the assistance of the Board, to organize credit corporations with which to meet these needs. This has been done most effectively in cotton and livestock. Recently the National Livestock Marketing Association, with the aid of the Board, has increased the capital of their Livestock Credit Corporations so that they can furnish additional credits to livestock feeders to the amount of $26,000,000. The intermediate credit banks have given them rediscounting privileges of eight times their capital and surplus.

Unfortunately, too much has been expected of the Agricultural Marketing Act and of the Farm Board. The Farm Board cannot perform miracles. The law is not a relief measure, but is just what its title indicates. Although farm commodity prices have continued to decline far below the cost of production, the stabilization operations, both in wheat and cotton, saved the farmers producing these two crops millions of dollars, because their crops would have sold at much lower prices if the stabilization corporations had not been in the market.

The Board has been criticised by some for beginning the stabilization operations and by others for not continuing them and I think one criticism is about as just as the other, and neither is just.

When Operations Were Beung

AN emergency did exist when both operations were begun, and as to wheat, everyone who sold a bushel of wheat between November 17, 1930, and June 3, 1931, sold it for an average of 25 cents per bushel above what he would have gotten for it if there had not been a stabilization corporation. Conservatively speaking, this amounts to more than $100,000,000 which someone got the benefit of, which would not have been the case if the same wheat had been sold at the world prices.

Everyone has heard the cry, "Take the Government out of Business." I am sure the farmers are for that, but when we take it out, let's take it out for everybody.

My observation has been that those who are complaining the most about the Agricultural Marketing Act being class legislation—Government in Business—are those who are perfectly willing for the government to help them but they do not want it to help anyone else.

One would also think that when Congress passed this Act, agriculture had been singled out and was the only industry the government had ever helped. We all know that this is not true. The government has been holding the hand of many of our ardent kickers for many years, and until agriculture was admitted to the fold, no one raised much of a howl about taking the government out of business.

The farmer does not want anything but fair treatment. He is entitled to that and he is going to get it. The Farm Board is going to continue to do everything it can to see that he gets it. When we take the government out of business let us take it out for everybody alike. The farmer will get along all right on that basis. One of his main troubles has been that the other fellow has always had the edge on him.

I know at least one optimist left in the world and I am the man. I do not think this great country of ours is going to the bow-wows. I do not think the United States Steel Corporation is going to stop making steel rails. I do not think we are going to stop riding in automobiles either, although we may have to come to Chevrolets and Fords for awhile. I do not think the woman in the country or in the city is going to give up all the labor-saving devices and the conveniences she has had in recent years, and I do not think the railroads are going to stop running trains whether or not they get the raise in freight rates they want.

Go to Work

WHAT we all should do is to stop this calamity howling, go to work and borrow enough money at a reasonable rate of interest to produce what we are interested in; regulate our production to demand and produce quality products at the lowest possible cost and we will be headed in the right direction before we know it.

The Farm Board, single-handed, cannot correct the world economic depression. Of all our national industries, agriculture has been hardest and most directly affected by the loss of our world markets, and by the increasing restrictions on international trade. We have done our best to moderate the decline in prices and to shield the farmers from the depression, but we would have had to have ten times the funds we do have to have done this completely — and even then it would be only a temporary treatment of the symptoms, with the disease continuing unchecked. Confidence in the future must be reestablished; credit must begin to function again; and international intercourse and trade must be freed from the shackles which have been placed around them since the war, before pessimism will give way to optimism and a real and lasting recovery can commence. Leaders of finance can do their part in bringing about the fundamental changes necessary for this cure.

A Word to National Banks

(*Continued from page* 233)

National banks must provide the country with a sound reserve system, and then must share the benefits of it with competitors who will not lift a hand or contribute a dollar to its support. They must carry substantial amounts on deposit with reserve banks from which they derive not a penny of interest, while competitors are deriving considerable income from interest on their reserves. They must put up the majority of working capital for twelve great central banks, and then permit the lion's share of profit to pass to the national treasury, where, in theory at least, it benefits non-member banks quite as much as it aids member banks. Then, as if these penalties for devotion to the national bank system were not enough, they come under another restriction, similar to the proverbial last straw which broke the camel's heart as well as his back, the rules which define eligible paper, that they can make but limited use of Federal reserve facilities and so must continue to maintain substantial reserves with metropolitan correspondents at low rates of interest.

Where the Fault Lies

THESE discriminations against national banks are the work of Congress, their own creator. Meantime, most state legislatures contribute their bit to the group of wrongs from which national banks suffer, when they deny to national banks the same right to take over the estates of a trust company, when a merger is being arranged, as the trust company has on similar occasions to take over the accounts of the national bank, including even public deposits. If the great justice-loving jury of the American people could only hear this array of evidence, it would certainly bring in a true bill of indictment against the lawmaking bodies responsible for such palpably unfair competition. The suggestions of the National Bank Research Committee and the Comptroller for removing these inequities are necessary steps for assuring the future of national banking.

There remains, however, one very practical step never yet advocated with sufficient insistence nor supported in sufficient degree by the rank and file of national banks, since Comptroller Dawes and his associates succeeded in marshalling nearly the entire body of national banks in active support of the McFadden Act. This most essential of all steps is to stir the whole body of national banks once more into a militant spirit and into some such union for action as proved so effective when that act was in process. Except there can be such union for action and such militant spirit, the disintegration of the national bank system will go relentlessly on and will probably acquire increased momentum.

All Must Cooperate

FOR, there are two facts, not entirely agreeable to consider, which must be squarely faced. One is that Congress is in no mood at this time to do anything for the national banks and is quite unconcerned as to what happens to them. The other is that many of the usual leaders among national bank men are not available for leadership now. If Congress is to be converted to a different state of mind the evangelizing force must be the rank and file rather than the usual spokesmen of the national banks.

The attitude of Congress is not unnatural. Banking problems are prosy and uninteresting to the average man, whether he is in private or public life, and are frequently difficult for the lay mind to understand. Besides, no glory is to be had for any congressman and no newspaper headlines are to be gained by taking up cudgels for the national banks. To aid a national bank is not a usual method for improving a congressman's chance of re-election. That Congress should present at this time an indifferent attitude toward the plight of the national banks is perfectly logical and indicates no sinister spirit.

The other disturbing fact is that national banks cannot expect their correspondent banks in the large cities to take up the burden of leadership in a campaign for laws more favorable than now to national banks. That has been the source of leadership in the past, and country banks have allowed the habit to become deeply ingrained in their fibre, of expecting their metropolitan correspondent to tell them when new laws are desirable and how banks shall organize to obtain these new laws. These leaders are not available in this present crisis. Some of them have quit the national bank system themselves, and their appeal for changes in the National Bank Act would hardly carry conviction. A bigger factor, however, in making metropolitan banks unavailable is their perfectly natural unwillingness to offend their multitude of state bank correspondents by becoming conspicuous advocates of a stronger national bank system. Disconcerting as this condition is, it must be recognized as a force that leaves the 7,000 banks, still retaining national charter, no other alternative than to rally on their own initiative.

The living, burning question is whether there is enough devotion to the national bank idea among these 7000 to formulate a program and then to move upon Congress with the zeal of evangelists. Let me testify, out of some experience with procedure of Congress, when a new bank law is up for consideratiton, that such a campaign has some genuine advantages. Members of Congress have a more attentive ear to testimony from banks of modest size, and especially from small banks operating in their respective congressional districts, than for testimony from attorneys or from immensely wealthy banks. The word of the representative from the smaller bank, relating out of his own experience the difficulties under which he operates, and the handicaps from which he suffers, does not fall upon suspicious ears, as the arguments of attorneys, or the expression of opinion from banks of immense means, sometimes do.

Influence of Small Banks

THE campaign that not only carried the McFadden Act through Congress, but actually gained for a time a feeling of sympathy among congressmen for the unduly hampered national banks was based upon this fact. It was not the hearings before committees of Congress, nor even the really skillful arguments in favor of the new law, that dispelled the indifference of Congress, and actually made Congress eager to place the McFadden Act on the statute books. It was the testimony of the thousands of national banks themselves, big and little alike, expressed in personal appeals to congressmen, through interviews, or through a flood of letters that swept into the offices of congressmen from national bank men living in their own district. If the tide of conversions is to be stemmed, now, and if the future of national banking and of Federal Reserve System are to be assured, it will be because the rank and file of national banks take it upon themselves to preserve the system.

The Condition of Business

Lower Prices and Interest Rates Being Followed by Readjustment in Wages and Rents. European Difficulties Are Fundamentally Industrial, Not Financial. Ten Major Domestic Industries Now on the Uptrend. Growing Prestige of Gold Dollar Standard.

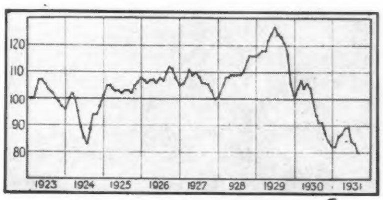
WHATEVER the developments of the past month have lacked in evidence of seasonal expansion of manufacturing and trade have been made up by the sensational readjustments in wage scales, currency troubles abroad and further recuperation in the domestic industries, no less than ten of which are now operating at higher levels than a year ago. The course of general liquidation that first affected security quotations and bank credit, then carried down wholesale prices of commodities, is finally passing to retail prices, rents, cost of living and wages.

England's Gold Standard

SUSPENSION of the gold standard has both helped and hurt England. It is now apparent that, while the crisis was precipitated by currency and financial conditions, the underlying causes were industrial, and arose from the inability of England to bring its manufacturing and distributing costs into line with the lower level of prices prevailing in world markets. Depreciation of the pound sterling will mean that the same money wage will represent a lower real wage, and this will enable English goods to better compete in world markets. Already a considerable number of concerns have resumed full-time schedules for the first time in two years or more.

Meanwhile, the industries in this country are continuing to readjust their operations to the new level of prices and, as distress stocks of merchandise are disposed of and the inevitable replacement demand on the part of the public broadens, the producers are gradually increasing output. To date no less than ten of the major industries have apparently touched bottom and are currently running at better rates than a year ago. With two exceptions, the list is made up of those lines supplying goods for immediate consumption and includes cotton, wool, silk, upper leather, shoes, tires, gasoline, flour, sugar and aircraft.

Industry in the aggregate has not yet turned upward but is continuing to move in a horizontal direc-



Federal Reserve Index of Industrial Production 1923-1925 = 100 (Corrected for seasonal variation)

tion along the lowest levels since 1921. Ordinarily it is the "light industries" that lead the recovery from depression, while the "heavy industries" lag some distance behind, and apparently this is exactly what is happening now.

There was an almost universal misjudging of the severity of the present depression, with many false prophecies and premature starts, until the public began to doubt whether there was any dependable guide as to when the absolute bottom had been reached. Probably there is none, in the sense of an infallible indication. Surely no one can name any definite date when business will be back to theoretical "normal." Of certain conditions, however, one can be certain, and the conditions in the heavy industries and in the financial world bear a striking similarity to those prevailing at the low point of the last severe depression, which was reached in April, 1921.

Following are a few comparisons of conditions at that time and at present, together with the high points reached in 1929:

	April, 1921	High, 1929	Aug.-Sept., 1931
Industrial Production Index	70.9	116.0	67.1
Auto Production (000s)	152.2	621.9	186.3
Steel Production (000s tons)	53.3	194.5	66.1
Call Money (per cent)	6.50	20.00	1.50
Commercial Paper	7.55	6.13	1.88
New Capital Issues (000,000s)	380.7	908.3	43.7
Stock Prices (Standard Stat.)	15.5	228.1	81.2
Stock Sales (000,000s)	15.27	141.7	24.89
Merchandise Exports (000,000s)	340.5	528.4	165.0

This list might be extended indefinitely, but the items given above are sufficient to show the tremendous decline that has occurred from peak levels and the virtual coincidence of the current figures with those of 1921. In the case of interest rates, the natural easing tendency in 1920-1921 was delayed for a year or more because of the "frozen credits" situation that existed as a result of the collapse in commodity prices—a situation that, fortunately, does not exist today.

It is probably safe to say, therefore, that the close parallel of conditions today with those in 1921 gives grounds for confidence that business is now at or around its minimum levels and that the eventual recovery is only a matter of time.

Depression Past in Some Lines

IN the lines supplying goods to the ultimate consumer, recovery is proceeding steadily, and many industries are now operating well above their lowest levels and even ahead of the corresponding period a year ago. To them, the depression is a thing of the past, and they are already well along in their "new era" of lower costs and prices.

Following are the latest statistics from ten of the major industries that in August were ahead of the previous August, 1930. In a few cases the July figures were used, being the latest available. It is believed that the September results made approximately the same showing, inasmuch as the trend of the last two months or so has been upward. For purposes of comparison, the low point of 1930-1931 is also shown:

Measures of Industrial Activity

(000,000s omitted)

	Aug., 1930	1930-31 Low	Aug., 1931
Cotton Consumption (bales)	352.6	352.3	425.8
Wool Consumption (pounds)	44.59	36.85	66.17
Silk Consumption (bales)*	41.73	29.40	46.45
Shoe Production (pairs)	24.12	17.54	28.41
Tire Production (casings)	3.193	2.721	3.941
Gasoline Consumption (barrels)	38.26	26.13	39.46
Leather Production (sides)	1.297	1.069	1.541
Flour Production (barrels)	9.47	7.76	9.85
Sugar Meltings (tons)*	202	157	214
Aircraft Sales (6 months)	$19.53	....	$19.62

*000s.

Activity in the various branches of

the textile industry has been benefited by the drastic reduction in retail prices of clothing and by the colder weather. Women's wear has been particularly stimulated by the new styles of millinery introduced during the summer, which has not only made the old hats more obsolete than ever but has created demand for new styles of dresses, coats, shoes and hosiery.

Rayon production was not included in the above list for the reason that statistics covering monthly output are not publicly available, but there is no doubt that its has participated in the gain of the other textiles with which it is so widely used. Authorities estimate that the rayon industry is now operating around 90 per cent of capacity, as contrasted with about 65 per cent a year ago. Inventory stocks are known to be low.

Value of aircraft and engines produced in the first six months of 1931 was $19,618,000, compared with $19,532,000 in the first half of 1930. Here is a comparatively new industry which, like rayon, has suffered from overly rapid development but has nevertheless settled down to steady growth. The air mail, which last month celebrated its twentieth anniversary, has developed to an impressive size, although the industry may possibly face the lowering of rates of pay for carrying the air mails, as well as smaller purchases of aircraft for the Army and Navy because of the large Government deficit and the need of curtailing expenditures.

Motor Industry Prepares for 1932

REPORTS from the automobile industry are somewhat conflicting. Because of the lack of genuine recovery in general business this fall, principal producers have not followed their usual policy of seasonal expansion in output, but have chosen to hold schedules in line with sales and allow dealers to reduce stocks, including stocks of used cars, to the lowest point in years. Introduction of new models instead of being made at this time has been deferred until the beginning of the year, with the thought that the market then will be more worth while than it is today.

Signs of increased activity are not entirely lacking, however. Ford Motor Company is steadily increasing its employment list and Chevrolet is resuming more active production after a shutdown incident to preparation of new models. Shipments of steel, plate glass, tires, parts and accessories have been increasing, and the motor industry has not yet given up the fourth quarter of 1931 as wholly unpromising, but instead appears to be making ready for a largely increased volume of buying in the not distant future.

When the replacement demand will make itself felt as a major influence is impossible to say, for the "average life" of a car is an elastic figure, subject to wide variation depending on circumstances. Every month that passes means that much more life taken out of every car on the road, and the pressure to finally scrap the old car and replace it with a beautiful new car, having the latest improvements, may be withstood, if need be, for a long time, but not forever.

Makers of parts and accessories are running at fair volume. Suppliers of the basic materials, such as steel, copper, lead, nickel, aluminum, etc., have as yet experienced little recovery, for the reason that when the depression started there were large stocks of the metal all along the line, from producer to consumer, in addition to which the different branches of the mining and fabricating industries have, for the most part, been slow to curtail operations. Now prices have fallen to the lowest point in a decade or more and forced the high-cost producers to suspend. When consumption begins to pick up, there should be a rapid reduction in stocks held by producers (much of which is contracted for and awaiting shipping releases) and a rise in prices would not be surprising. Some of the commodity experts are now advising consumers to cover their requirements for several months ahead.

Stocks and Bonds

DURING the past month the security markets have all been reactionary. Common stocks have, as a class, broken through not only the previous 1931 lows but have fallen to levels never before witnessed in the present century. Most of the news developments have been unfavorable, or at least admitted of unfavorable interpretation by discouraged investors and professional traders.

Prices of high grade bonds, including even government bonds, which throughout the past two years of depression have held firm or worked upward, broke last month in the wave of liquidation that followed the abandonment of the gold standard by Great Britain. Lower grade bonds virtually collapsed, and many of the foreign government dollar bonds have fallen to below fifty cents on the dollar. Following is a list of representative issues, showing the decline that occurred during September.

Representative Foreign Government Dollar Bonds

	Aug. 31	Sept. Low	Decline
Argentine 6s—57	64	35	29
Australia 4½s—56	53	30	23
Austria 7s—43	106	95	11
Belgium 6s—55	101	83	18
Canada 4s—60	95	74	21
Chile 6s—60	26	10	16
Denmark 4½s—62	95	60	35
Finland 6½s—56	76	46	30
French 7½s—41	125	113	12
German 5½s—65	58	33	25
Gt. Br. & Ir. 5½s—37	105	92	13
Greek 6s—68	84	51	33
Italy 7s—51	100	79	21
Japan 5½s—65	97	86	11
Norway 5s—63	100	77	23
Poland 7s—47	64	30	34
Roumania 7s—59	70	45	25
Sweden 5½s—54	103	68	35
Switzerland 5½s—46	105	98	7
Uruguay 6s—64	40	25	15

Numerous issues have declined even further than those appearing on the list. All of those quoted above are payable in dollars, are listed on the New York Stock Exchange and are considered seasoned issues. Many of them have been given the highest rating by the investment services.

There are two chief explanations for such a decline, which is entirely unwarranted by actual conditions in the respective debtor countries, many of which have now brought their foreign trade into balance and will unquestionably continue to meet their interest charges. One is the fear on the part of American investors, who have had little previous experience with foreign investments and easily become frightened by a decline in quotations, accompanied with rumors that are so far-fetched that they do not deserve even official denial. Another reason is that the closing or restriction in trading of a number of stock exchanges throughout the world has left the New York Stock Exchange as the only important market remaining open, and foreign holders therefore throw their securities in this market, much the same as during the days immediately following the outbreak of war in 1914.

Although there is no way of proving the fact, many people believe that the break in bonds has been accentuated by short selling on the part of professional traders, who take advantage of the unsettled conditions and pessimistic sentiment prevailing to launch selling attacks on one issue after another.

As a general economic principle, it is desirable to have the greatest possible freedom of action in markets, but this freedom may be carried to the extreme if it allows prices to be driven to the point where they no longer reflect true values. This is of course true on the up-side as well as

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The Next Time We Prosper

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cial habits and customs of our people? Bankers above all are interested in stable, wholesome business. They have the most to gain by a state of sound financial health among the people, and most to lose by epidemics of economic maladies such as have swept the country during the past two years.

I therefore commend to our bankers contemplation of the thought that a major part of their public relations, and advertising and financial advice during the period that lies ahead should be not primarily getting new customers, but primarily the inculcation of sound personal financial habits. I know of no method for planning for the economic future welfare of the country that would be more effective than this in maintaining the nation's business health and vigor, and I believe the most effective time to carry this out is during the rush of prosperity, even though the temptation for pure sales promotion is then strongest.

Analyze as much as we will the economic causes and reactions of our national life, a basic source of the events of a period is the spirit of the times. I bespeak for the future, therefore, a greater spirit of humility in success and of tolerance in adversity. These are the attributes of neighborliness that are unequalled in their power to smooth the ups and downs of life.

Danger in Success

DURING the period of our prosperity boastful pride in achievement, grasping for power, conceit over success that often enough was brought by nothing more substantial than an inflation of false values rather than the creation of true qualities—with these unsound elements was too much of the spirit of those times imbued. They created unwholesome discontent, morbid envy and loss of faith in old standards among our people. They led to over-reaching aggrandizement among our industrial and commercial organizations. They caused blindness among us all as to economic realities. Would not greater humility during those days of our great success have been a stabilizing influence—would it not have been a powerful influence in fortifying us against the days of adversity?

And during these days of adversity too little has the spirit of the times been ruled by the neighborly quality of helpful tolerance. Impatient

blame has placed the cause of our troubles in the deeds of others rather than ourselves. Accusations have been loud that some class or some interest was seeking to sacrifice the welfare of our people for its own ends. Failure to prevent unavoidable readjustments in our economic relationships have been charged against those who were powerless against these worldwide forces. Intolerance such as this has entered too largely into the spirit of these troublesome times—and added to the instability of the period and the difficulties of dealing with the problems it presents.

And so I say, study as we will good business methods, scientific economic principles or sound governmental policies, we should study, too, the part our natures play in the course of events. When we enter another period of prosperity—as we surely will—we must, both as individuals and as a nation, do so with a humble spirit—and keep it humble, no matter what success attends our efforts. And while the present period of adversity still lingers, we ought to approach our task of rehabilitation with that spirit of tolerant confidence in the good intentions of one another that can alone bind a people together in a common cause.

Only 1.2% of Deposits Affected

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give attention not only to getting customers but to cultivating greater understanding among them as to the peculiar nature of a bank's business. This will serve as a means both to strengthen public confidence in banking and also to establish sounder economic elements in their relationships with their customers and communities.

We believe that bankers might well consciously devote greater effort to building up the public viewpoint in their communities that due to their public obligations and burden of public interest, the banks are entitled to protection against ill-informed or malicious gossip and rumors. In some states bank slander laws afford this protection. We recommend that this protection be availed of by definite action wherever practical both as a matter of immediate expediency and also to awaken public opinion as to the dangers of idle gossip about a community's banking institutions.

The greatest need of the hour is to revive and make dynamic once more the confidence which our leaders and our people have always had in

the future of our country and its well-regulated institutions.

We therefore say to our bankers that, granting we are in the midst of serious times, they are not times for discouragement. They are times for the banker and businessman to counsel together in the determination to help each other work out constructive business steps to restore the normal operations of industry, trade and finance in their communities.

And to the customers of our banks and to the people of this country we say have confidence in your banks and faith in your bankers. The financial system of this country and the banks as the chief instruments through which this system works are intrinsically and fundamentally sound.

Therefore, as we see it, if it is a time for serious thought, it is also a time for courageous action. This nation stands in the history of nations as a people of indomitable spirit in the face of overwhelming difficulties. That has been the basis of our great achievements in the past. It should be the source of a return to better times and continued progress in the not distant future.

We recommend that all the banks of every community should recognize the fact that the problems and difficulties of each have now become the common concern of all, and they should extend prompt and mutual aid and cooperation to the fullest extent possible.

America's Bulwark of Savings

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besetting evil, except this evil of unemployment, should not be able to give of its strength by transfusion to the world and it must be done. I say that the savings banker is charged primarily with the responsibility for mobilizing that thing which is of the greatest weight in the councils of nations and that is a steadfast adherence by individuals to a policy.

It should not be said that America has never had a design. America has always had a design. It is a design of freedom, a design of liberty, the design by which individuals can progress, and they have progressed out of their energies, out of that marvelous combination of educated backgrounds which they brought to America, plus the willingness to use their muscle against the frontier.

They have progressed out of the utilization of the products of the laboratory and the developments of science, largely handed to them by devoted souls working without compensation in laboratories of universi-

ties and elsewhere for generations. They have progressed, but now for the first time they can progress by commanding, if they will, all those resources of the spirit and the intellect and the material world which are available to them. I ask for leadership and I ask savings bankers in their field to supply a measure of that leadership.

Measured Service Charges

(*Continued from page* 222)

ally, and the imprinting of the customer's name on each. It covers the cost of handling each sheet each day and proving the balances two or three times each week. Finally, it covers the cost of preparing the statement for the customer, together with delivery to him at the close of each month. The maintenance expense, of course, is restricted to the bookkeeping division, and is shown at the bottom of Table I, under "maintenance cost" of fifty cents per account per month. This Table I may not be adaptable for the needs of every bank but it is very desirable for general use. All banks should agree on a fixed form for account analysis. The Bank Management Commission of the American Bankers Association has worked faithfully to this end.

These illustrations have reference to commercial banking. A similar form of analysis is easily worked out for the bond department, mortgage loan department, trust department, and others. From the earning items of income are deducted the per item and other costs with accurate results of profit or loss in each and every department.

We must arrive at our costs accurately. If we allow ourselves to be governed by opinions where it is possible to obtain facts, we shall lose in our competition with those who base their actions on fact. A bank cannot afford to analyze small accounts with any degree of regularity because the cost is prohibitive. A bank can afford to approximate their value and this should be done. Many persons have turned their minds to the proper analysis treatment to be accorded the small account and a great many plans have been evolved, some arbitrary, some more or less scientifically accurate. Among these plans should be mentioned the "one check to each $10 of deposit" plan and the "arbitrary service charge, scaled to balance sizes with so many free checks" plan. We feel that each of the plans now in common use has certain features which

are unnecessarily arbitrary and that a complete new deal is desirable.

Result of One Survey

DURING my administration as president of the Missouri Bankers Association, we made a survey of unprofitable accounts in banks. The results were startling. We found that in a bank with $500,000 deposits, with an average of 2,500 customers, 61 per cent of the depositors or 1,525, controlled only 4 per cent of the total deposits, or $20,000. We put on the service charge and made another survey with the result that 40 per cent of this 61 per cent, or 610 accounts, representing $8,000, submitted to the charge; 30 per cent of the 61 per cent, or 457, representing $6,000, built up their balances to amounts on which the service charge would not apply; 30 per cent, or 457, representing $6,000, closed the checking account. Of the last amount one-half went into savings accounts, leaving a loss of only $3,000 in deposits. The same condition will be found in other states. In our bank there is not an account of $500 or over that is not analyzed every month. It does not take many men to do it, and it is worth the cost. We are not doing these things to benefit by the loss chargeable to the customer's account, but with the idea of putting the account into the profitable class so that we will not have to make the charge.

A banker, before dealing with a customer with regard to a unsatisfactory bank account, may well study, intimately, every feature of that customer's relationship with the bank and should be prepared to discuss not only the bank's angle in the matter but also the customer's. Then when the time arrives for action, the banker should enter the discussion with the determination to end the loss in that particular account and should stop at nothing short of that else the negotiation is futile, the banker has failed and the customer loses his faith in the bank.

It is far better to ignore the cost element in the business than to apply it ignorantly or ineffectively. In considering the correction of unsatisfactory bank accounts, we should have always in mind that even greater than the opportunity for building larger bank balances, a thing close to the heart of most bankers, is the opportunity thereby provided for amending expensive and unwise banking practices — reducing interest allowances to a reasonable basis or eliminating them altogether and discouraging excessive use of bank checking privileges. We further should realize that the task of correction provides a job which is big enough to deserve the attention of the highest executives in the bank and that in few directions can their efforts be so well expended as in this. In my judgment, no bank is too small to be audited and set up in detail so that income, costs and profits can be accurately computed.

Banks strive toward an ideal, but like perfection, they never reach it. We work toward an institution that is self-managed—where all customers are on the same basis of profit; where credit is extended as a privilege and interest paid on a fair return basis; where float charges are accurate; collection and exchange charges are correct; where fair return costs are levied for escrow and safekeeping services; paying a fair price for our raw material and selling it at a fair profit. The banker who buys his funds right, handles his overhead expenses right and sells his service and credits right, will make money.

The Savings Division

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and maintain zeal for thrift. It must be strengthened, he said, by the sincere conviction that providing for the future is based on a moral principle. Mr. Robinson's address appears in full elsewhere in the JOURNAL.

Henry Bruere, president of the Bowery Savings Bank, New York, described the place that savings have come to occupy in the national economy. He pictured the historical background of savings banks and cited facts to indicate that the vast sums now represented by individual savings must play an even more important role in the country's future than they have in the past. This issue of the JOURNAL contains Mr. Bruere's address.

Rail Problems

FAIRMAN R. DICK of the firm of Roosevelt & Company, New York, and chairman of the Security Holders Committee on the Railroad Emergency, discussed the problems of the railroads from the standpoint of investors. He expressed the view that the principal difficulty faced by the carrier systems at present was not the threat of competition from motor vehicles or inland waterways, but the drying up of their sources of credit. The chief factor contributing to this condition, he said, was the uncertainty of the Government's attitude. Mr. Dick's address appears elsewhere in this issue.

The Division approved the report of the resolutions committee urging that activity in connection with school savings should be continued because of the value of school savings in laying the foundations of thrift among young persons. The report suggested that the rewards of such efforts would come in later years, in the continuation of patronage and in higher standards of citizenship. The report also urged a continuation of the regional savings conferences because of their value in the dissemination of timely facts.

"It is particularly the desire of this Division," said the report, "to point out that, in these times of stress and depression, that the attribute of thrift —as expressed by the ownership of a savings account—is perhaps the greatest stabilizer of economic well-being yet devised; that more universal habits of intelligent saving will go far toward equalizing the heights of prosperity with the depths of depression."

The group subscription plan enables every bank to supply key men of its staff with information that is helpful. The Protective Section alone prevents losses.

The State Bank Division

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ier of the Farmers and Merchants Bank & Trust Co., Hannibal, Mo., and F. O. Birney, president of the Reliance Bank & Trust Co., Chicago, Ill. J. M. Kinard, president of the Commercial Bank, Newberry, S. C., was chosen for the one-year term.

In accepting the office of President, Mr. McWhirter asked for cooperation in the Division and unity of action. "The very number and complexity of the problems in all fields of business endeavor and of governmental action require that every right-minded individual and group exert themselves to the utmost limit in order that all forces of disorder and retrogression may be overcome. It should be emphasized to all patrons of banks in their common interest and for the public good that a bank is a communal institution dependent for its existence

upon general community support. Any action outside of, as well as within, a bank, that weakens its community support is a blow to the community itself. Even the highest efficiency in technical operation can be imperilled by unjustified and unwarranted pessimism as to general conditions, and unintentionally or deliberately false allegations concerning a particular bank, banking system or banks in general. It is time for conservative, well-founded public expressions.

"Courageous leadership in the banking profession as well as in all branches of American business in dealing with temporary and transitory difficulties in the economic system or with more fundamental changes, should be supported by all conservative individuals in public office or in private pursuits who are in a position to assist in the further development of public poise, fortitude and confidence. It is clearly a time to subordinate prejudices and conflicts and to make all who are prone to stir strife to no good purpose realize that quick disapproval awaits needless friction.

"This does not mean that any agency or branch of business, especially banking, should fail to defend itself as vigorously as may be needed. It does mean, however, that it is peculiarly our duty today to search out and suppress in time, wherever they may exist, injudicious and inconsiderate, unthoughtful and harmful proposals and attitudes that react, not only to the detriment of the great good of all banking, but of all business and all private endeavor.

"We bankers, no more than others, can escape the liabilities of individual or group inadequacies, but we at least can use all proper means of demonstrating that any small proportion of undesirable policy or practice that may be found, should not be permitted to outweigh in the scale of public opinion the preponderant good which clearly exists. Let us set an example of courage and confidence, refrain ourselves from any injudicious action, and require that others do the same. We can thus gain the support and greater confidence of all good elements."

The Division approved a comprehensive report of the committee on resolutions, the purport of which was that the Bank Management Commission was performing a task of extraordinary importance to the future of banking and that every possible support should be given to the work of the Commission. The resolutions emphasized particularly the value of regional conferences and the point was brought out that the benefits of these meetings extended to business as a whole, as well as to banking.

"The costs of banking," it was declared, "should be spread equitably over the community served. Measured service charges and account analyses have proved to be the most proper media for this purpose and we commend their further adoption by the banks of this Division.

"Coordinated effort for the common good is desirable. Regional clearinghouses have proved themselves to be effective in providing a medium through which the so-called country banks in a contiguous territory may work together for better banking. Through such organizations much consistent progress is being made. We commend the subject of regional clearinghouses to the earnest consideration of the banker of the rural communities. Much assistance may be had from the executive offices of the American Bankers Association in this connection."

Other subjects touched on were the benefits accruing to the nation from the dual banking system and desirability of eliminating at this time all signs of controversy between the two.

Moral Values of Thrift

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duty to wife and children, so it is the duty of every one, as a member of society, if possible, to create new capital through thrift.

The world of today and the benefits of civilization exist and progress because of the capital accumulated by those who have gone before. It is only through the accumulation of capital available for investment that our great systems of railroads have been constructed, our public utilities have been built, our mills and factories, office buildings and homes have arisen. Society without the benefit of savings in the past could not exist in its present form, and with the withdrawal of such funds or the permanent drying up of a continuous stream of fresh capital, the world would break down into barbarism. There is a miserly saving for which no argument can be advanced; there is a wise and necessary spending to which all must assent, but there is an equally wise and necessary saving, a saving which not only promotes material welfare, progress and civilization and permits the development of great altruistic enterprises, but at the same time creates in the individual the sturdy qualities of character which come from self denial, prudence and thrift. Thrifty nations have a minimum of crime; extravagance breeds not only poverty but crime.

In the National City Bank of New York June letter there is this paragraph: "The old saying about the wisdom of saving for a 'rainy day' is evidence that life always has been subject to vicissitudes and emergencies against which the prudent have thought it prudent to accumulate reserves. If everybody accumulated reserves and avoided indebtedness except for temporary and emergency needs, the whole problem of crises and depressions would practically disappear."

We live on the thrift and self denial of past generations. To say we pay for the use we make of the railroad, the electric light, our home or our office because we buy a ticket, pay our bill or rent is not the whole truth. We pay in full only when we, to the extent of our ability, continue to add to the fund of capital that the same benefits we are enjoying may be extended to others who lack them. We owe a debt we cannot deny to preceding generations and we pay it best by putting posterity in debt to our own generation. If we fail to do this, even though we pay our current bills, we are parasites on organized society.

American Leadership

THE moral issue of thrift must be planted deep into the conscience of the nation if America is again to hit its stride in the leadership of the world. With all the emphasis at my command, I emphasize our responsibility for promoting the morality of thrift, and in assigning to ourselves this vital responsibility, I recognize the hazards and the difficulties. The prevalent "what's the use?" attitude must be overcome. The hopelessness of despair, born of real and paper fortunes won and lost, must be conquered. The aftermath inertia following excess from which America is suffering today must be whipped into a realization that opportunity still lives. False economic doctrines, preaching excessive spending as the road to recovery, must be met boldly in the open and the poison be eliminated.

This is our job. It is almost exclusively our job. Almost every influence in America has been clamoring to combat thrift. It is ours to preach that luxury bought today at the expense of

tomorrow's safety and peace of mind is not only unsafe but immoral. It is ours to establish that adult example of reckless and indiscriminate spending is a negative and damning influence upon the growing generation, upon whom the nation must depend if it is to achieve its destiny.

Directly upon bankers falls the responsibility, both by precept and example, to kill with finality the false doctrine of eating the cake and still having it. I submit that only by the acceptance by the individual of thrift as a moral issue can this nation, or any nation, hope to emerge from the morass of difficulties in which it finds itself. I claim, without qualification, that the responsibility of broadcasting and establishing this fundamental concept is as much our duty as are our daily duties at our banks.

A Huge Task

WE here today represent the custodians of the 53,000,000 savings accounts now on the ledgers of the banks of America. We owe to the owners of those accounts absolute safety and the best of service, but we owe them more than this. We owe to them the strength of our encouragement that they have been profoundly right in their desire to accumulate. We owe to those who have to withdraw part or all of their savings a full measure of our moral support in keeping the fire of their hopes burning, that the right road should not be abandoned because of a bad detour. It is our duty to safeguard the owners of those accounts against the blandishments of false economic doctrines, which are seeking to sap the accumulations which have made America a successful nation. We owe it to those who have no savings accounts to teach them to practice thrift.

We are faced with a big job. We are faced with a job that will pay little except in a deep sense of personal satisfaction of duty well done, but it is worth it. We shall not be sorry if we exert our every influence to persuade all we know that thrift, the bulwark of civilization, must ever continue to be the bulwark of civilization. Preach the doctrine that a good farmer does not cut down the tree because one or two years' fruit crop is not up to his hopes and expectations. Spread the truth that action and reaction, ups and downs, are inevitable; tell depositors to hold on; tell them to believe; tell them that thrift is the law of a wise God, and that those who believe and act upon their belief will ultimately be safe and happy, despite the present lean years.

Sustained and strengthened by our own sincere conviction of the moral sanction and obligation of thrift, we shall preach and promote thrift with a zeal and energy which will inspire to action those who need its benefits. That zeal and energy can never be produced or maintained by mere expediency or self interest. Thrift and morals are inseparable.

Need More Complete Data About Borrowers

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turer today the banker should, therefore, estimate more carefully than ever before the future financial requirements of the business, the probable necessity for additional permanent capital and what the prospects are for obtaining it. For when business improves and corporations require more working capital due to increased inventories and accounts receivable, they will naturally go to their banks, as the investing public will turn a deaf ear to security offerings of companies that have a record of several years of losses. This means a scramble for money and the financial

forecast will disclose many unexpected situations.

It is, therefore, essential that banks make a study of the situation of each of their industrial borrowers, so as to be prepared to function wisely for the good of the community, the best interests of the borrower, the welfare of depositors and stockholders. This means a reasoned plan of procedure, more cooperation between banks, and a definite policy regarding all commercial loans. But the first requisite is an intimate knowledge of the borrower's business. Otherwise, the result will be involuntary partnerships. It is particularly important that a bank should make a careful study of the probable future financial requirements of borrowers before coming to a decision on granting a loan.

Bankers must study more closely the business of their borrowers and not make so many loans from their desks.

A National View of State Banks

(*Continued from page* 218)

While it may be true that some scathing criticisms could be justly directed at certain state bank systems, on the other hand, the national and Federal Reserve System have certainly not been free from imperfections. We were led to believe that with the advent of the Federal Reserve System failures of national banks were a thing of the past. This has not proved true. The closest and keenest supervision could not compete with the falling of the value of farm products such as has occurred in our agricultural sections since the postwar deflation or with the continual easing off of value of bonds or the dropping of values of the products of industry. No bank, whether state or national, can prosper unless it takes the chances of drought, floods, grasshoppers, legislation and economic changes. There never will be an examiner or banker whose hindsight can be capitalized into a foresight of sufficient strength to overcome such obstacles.

State bankers are willing to give their support to the national system where necessary. They are again willing to go as far as they did when they marched up the hill and right down again as seemed needful when the McFadden Bill was up for consideration. What is necessary for the success of the national system reflects in the success of state banks. It is in the best interests of all that we should have two systems. The present spirit of cooperation between the head of the national system and the superintendents of banks of the several states should prevail. As an American banker I regret to admit that such spirit has not always existed. This strained feeling was largely due to the fact that each system had an exalted idea of its sense of importance and of its dignity.

As an economic necessity our dual system has proved its value. Each system acts as a counterbalance against the other. There is never any danger of one system establishing the policy for all, except in the defense of a common cause. Those who live in the agricultural Northwest had a bitter taste of this after the close of the late war.

If a single system is advisable why not turn our entire banking business over to the Postoffice Department? They are now in active competition with the banks in deposits and each year ask for additional privileges—another rare example of the camel, the Arab and the tent, which is no longer an exception in our state and Federal governments.

What Will Restore Rail Credit?

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believed by some that when business improves and earnings improve, that in time, credit will be restored. I do not believe this is necessarily true, and it is only necessary to examine briefly the source from which railroad funds are provided, to realize that there is great danger that the flow of capital such as existed in the past decade, may not be resumed.

The bulk of this capital came from the sale of bonds at low rates of interest to conservative financial institutions such as savings banks, insurance companies, discount banks, universities and charities. The requirements of these institutions are, primarily, safety and stability. Their funds are not speculative funds. They invested in railroad bonds because they considered them safe and stable investments. If, in fact, they are not safe and stable investments but speculative investments, or in other words, "fair weather" securities, they cannot and should not, be bought by these institutions.

Narrow Profit Margin

ALL the reliable testimony in this rate case was that the collapse of earnings was not an accident. It has resulted from the narrow margin between gross earnings and expenses. It was believed by many that railroad earnings possessed sufficient inherent stability to compensate—for the low margin. It is now evident that the nature of the railroad industry is such that as between times of prosperity and depression, large fluctuations in earnings are unavoidable. For credit to be stabilized, therefore, earnings must be sufficient in normal times. Whatever doubts investors may have had as to the stability of railroad earnings was tempered by the assurances in the Transportation Act, in decisions of the Supreme Court, such as the Dayton-Goose Creek case, and in many decisions of the Interstate Commerce Commission. As an example, the following from the decision in the Dayton-Goose Creek case:

> "By investment in a business dedicated to the public service the owner must recognize that, as compared with investment in private business, he cannot expect either high or speculative dividends, but that his obligation limits him to only fair or reasonable profit."

On which the Commission commented as follows:

> "If such limitations are to be imposed, plainly stability of income and return is a prime requisite."

It is my belief that the present flight of capital from the railroads is due to the fact that the necessity of adequate earnings during normal years was not recognized by the regulating authorities; and that up to the present time there has been no assurance of protection in this depression. The difficulty at the present time lies rather in lack of confidence than in lack of present earnings. To restore confidence and convince investors that the railroads will be permitted adequate earnings in the future, some tangible step must now be taken by the Commission. The only practical step yet suggested is the proposed rate increase. If this confidence is restored, I believe that the reservoirs of railroad credit will again be opened, even well in advance of any actual increase in earnings. If investors feel that they cannot rely on the Transportation

Act for any adequate protection, railroad securities may forever quit the list of conservative investments.

It seems profitless to discuss who was responsible for the present condition of the railroads. I do not agree with those who place the whole responsibility at the feet of the Interstate Commerce Commission, nor do I agree with those who say the blame is entirely on the railroad managements. Neither statement is true. I believe that the Government fully intends to give investors the protection so clearly stated in the Transportation Act. In the past our nation has solved problems equally serious. I see no reason to doubt our success now.

Four By-Products of Trust Work

(*Continued from page* 235)

now being protected and administered.

The advertisement and solicitation of trust business are wholly unknown in France and, until recently, unused in England. Within two years' time I have noticed a change of attitude in England. One of the Big Five banks, through its executor and trustee company, now offers special inducements to its branch office managers actively to solicit trust business. While waiting for a conference with the head of the trustee department of one of the largest trust corporations in London, I found on the table in his reception room a pamphlet on life insurance trusts on the first page of which read somewhat as follows: "The Corporation is prepared to accept the trusteeship of policies and to administer the policy moneys in accordance with the terms of the deed constituting the trust. The Corporation's long experience of corporate trustee work, coupled with its intimate association with life insurance of more than two centuries, places it in a preeminent position among corporate trustees in the administration of such trusts." No American bank or trust company ever recommended itself more highly than that.

Our trust institutions have an obligation to the public to advertise, to solicit and by all other appropriate methods to promote trust business. The tremendous sums that they are spending on promotional work are, from the standpoint of the public, an investment for the protection of the widows and children of our land.

Estate Safeguards

THIRDLY, our trust institutions offer American estates the safeguards and protections of business corporations of vast resources, financial and moral.

The financial protection lies, of course, in the fact that the faithful performance of every obligation of a trust institution is assured to the extent of its capital and surplus. Numerous checks and balances imposed upon trust institutions still further assure both fidelity and good service. The management of the trust department is answerable to the management of the bank or trust company. The management of the bank or trust company is answerable to the board of directors. The directors are answerable to the stockholders. They all are answerable to the public through the courts. The trust department, the same as the banking department, is under the supervision of government authorities, state or Federal, and usually both. The fact that the failure of banks with trust departments does not imperil the trusts is evidence of the financial protection that characterizes estates committed to trust institutions.

Even more influential than the financial protection is the moral. Trust

business subsists upon the patronage of the people. The profession of the trust man and the business of the trust institution depend upon the good will of the public. Trust institutions must, therefore, at all hazards render acceptable service or else sooner or later go out of business. They must, furthermore, retain in their service trust men in whom the people have confidence and with whom they like to deal. Here, in my judgment, lies a form of protection to estates committed to trust institutions that outweighs any liability that would be enforceable in any court of law or equity.

Rising Standards

FINALLY our trust institutions are a national asset that is constantly growing in value because they are still on the upgrade in the quality as well as the quantity of their service. There has been a tendency lately to raise the standard of conduct of trustees—first, of trustees in general and then of trust companies and banks as trustees.

For nearly 100 years the accepted standard of care of a trustee to invest, first enunciated in 1831 by the Supreme Court of Massachusetts in the Harvard College v. Amory case, was that of a man of prudence, discretion and intelligence in the management of his own affairs. But in 1920 the Supreme Court of Michigan went a step further and said that the standard of care is higher than that of a man of prudence, discretion and intelligence in the management of his own affairs, that it is the standard of an ordinarily prudent man in the management of the property of others. "He must at all times," the latter court said, "remember that he is handling a trust fund, the care of which has been intrusted to him in reliance on his integrity, fidelity and sound business judgment." I venture to predict that the Michigan rule will eventually supersede the Massachusetts rule and that trustees to invest will be held to a higher standard of care in the management of trust estates than in the management of private estates.

There is also a disposition to hold trust institutions to a higher standard than individual trustees. The reasoning is that our trust institutions have held themselves out as possessing superior qualifications over individuals for rendering trust service and have solicited trust business on this score and that it is only fair that they should be held to the standard of excellence that they claim for themselves.

Even though these suggestions about holding trust institutions to a higher standard than individual trustees were in some instances made in a spirit of challenge, trust men should accept them all in a spirit of sportsmanship. Our trust institutions do hold themselves out as having superior qualifications for settling estates, administering trusts, and performing agencies. They have especially equipped themselves for the constant supervision and periodic review and analysis of their trust investments. They are willing to be judged by the results of their administration. That they are regarded as having made good such claims is shown by the rate at which trust business is being committed to them year after year.

Director Helps

Over 10,000 directors of banks each have their own copy of the JOURNAL sent to their homes. Through this magazine they obtain new and valuable viewpoints. What other banks are doing as told from month to month by banker-authors—helps these directors to better serve their own institutions.

Banking's Best Course Hereafter

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erected by various governments—and thereupon the natural and free flow of trade and commerce between the nations may be unimpeded—we should have then in this country the greatest prosperity it has ever known. Supply and demand the world over could meet under the natural law and without interference by political barriers of an artificial nature, and as a result of such process the United States would prosper as never before. The economic and business leadership of the world has sensed this for a long time and there are evidences that the present world-wide distress may soon force a political leadership into cooperative action in steps looking toward this desirable end.

Facts Must Be Used

I SUPPOSE that this has been the greatest fact-finding age the world has ever known. It has excelled in education and research, in travel and in dissemination of knowledge, in acquiring an amazing amount of facts and in discovering new secrets of nature in pure science and its application. However, it may be seriously questioned whether we have yet learned how properly to make use of this knowledge. The mere accumulation of facts is potential only as it leads to the development of ideas, and mere knowledge is of little avail unless out of it the human brain creates wisdom, which is a very different thing.

Knowledge alone is often used for private and selfish purposes. Wisdom, born of knowledge, has the broader vision to recognize that the welfare of all peoples the world over makes for the well-being and prosperity of the individual anywhere. In the present crisis, I think that we may anticipate with confidence that statesmen and those in high places in the financial and economic world will recognize their great responsibility and make effective their present opportunity for cooperation and for enlightened and constructive leadership.

A few years ago, a large proportion of the bankers in this country were being severely criticised for impeding the progress of a new era. They were being called old-fashioned in that they were not keeping up with the procession in the inflationary prosperity parade. They acquired the reputation of being "hard-boiled" because they would not make loans against the false values which were being created. They were being censured because they would not open up their commercial banks to promotional enterprises. They saw some other bankers apparently prospering and growing in strides because they were doing these things.

No one now is directing their criticism at those same bankers. On the contrary, their exhibition of courage in maintaining their conservatism during the speculative period has won for them respect and confidence in high degree. They have emerged from these trying years with their feet firmly on the ground and with their heads up and their eyes unafraid, and as the best exemplars of what real bankers should be. They have operated their banks within their proper function as such with full realization of their responsibilities, and have set a high standard for the banker of tomorrow to emulate.

Postal Practice and Banking Practice

"We do not expect the Post Office Department to carry our letters for a definite charge each month regardless of the number of letters handled. The Post Office charges in accordance with the number of items carried. Banks should also charge in accordance with the number of items carried."—M. Plin Beebe.

Management Tells the Story

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rates that they have been paying on commercial and savings accounts.

The Bank Management Commission, which is charged by the American Bankers Association with the job of "studying and preparing material having to do with the problems of bank management, operation and inter-bank relationships," is devoting all of its time to the intensive study of these unfavorable conditions which during the past ten years have created difficulties in the banking world.

First and foremost in this program are the better bank management conferences which are held annually in all parts of the country, and which have been singularly successful from the standpoint of attendance, constructive discussion, and concrete results. Practically every conceivable angle of bank management and operation has received the attention of experts at these conferences, and I think I am safe in saying that every delegate who has attended these meetings has gone back to his bank better equipped than ever before to meet the situation. Briefly, the subjects handled have been loan administration, composition of secondary reserves, bank investments, analysis of accounts, interest on accounts, service charges, float charges, clearinghouse associations, credit bureaus, and responsibility of directors in bank management.

A survey of the field which is made by the Commission at each Annual Convention determines just what shall be the major objectives for the next twelve months. As a result of these surveys, booklets on bank management problems have been prepared by the best authorities available, and distributed to the entire membership of the American Bankers Association. All of these studies are assigned to men who have demonstrated their ability by practical experience and intimate relationship with the subject in hand to give comprehensive and reliable and constructive information and data for the benefit of the banker seeking such material. Excellent work is being done along these lines by the state bankers associations in the forty-eight states, and by the several Divisions and Sections of the American Bankers Association, all of which tends in the same direction, and all of which has for its objective constant improvement in bank management and operation.

As we look into the future it is my firm conviction that largely because of our experience in the serious

Slough of Despond from which we are emerging, all bankers will have learned many lessons which, when applied in a specific manner to our own problems, will mean that tomorrow American banking and American banking practice will develop a higher standard than ever before in our history. The result will be that we shall be able to serve our communities adequately, competently, safely, and with honor and profit not only to the banks themselves, but to our great army of customers for whom after all the banks are founded.

President Hoover's Plan

(*Continued from page* 260)

Credit Corporation

5. Furthermore, if necessity requires, I will recommend the creation of a finance corporation similar in character and purpose to the war finance corporation, with available funds sufficient for any legitimate call in support of credit.

6. I shall recommend to congress the subscription of further capital stock by the government to the Federal land banks (as was done at their founding) to strengthen their resources so that on the one hand the farmer may be assured of such accommodation as he may require and on the other hand their credit may be of such high character that they may obtain their funds at low rates of interest.

7. I have submitted the above-mentioned proposals, which require legislation, to the members of congress whose attendance I was able to secure on short notice at this evening's meeting—being largely the members of committees particularly concerned—and they approve of them in principle.

Outlines Laval Negotiations

8. Premier Laval of France is visiting the United States. It is my purpose to discuss with him the question of such further arrangements as are imperative during the period of the depression in respect to intergovernmental debts. The policy of the American Government in this matter is well known and was set out by me in a public statement on June 20 in announcing the American proposal for a year's postponement of debt payments.

Our problem in this respect is one of such adjustment during the period of depression as will at the same time aid our own and world recovery. This being a subject first of negotiation with foreign governments was not submitted for determination at this evening's conference.

9. The times call for unity of action on the part of our people. We have met with great difficulties not of our own making. It requires determination to overcome these difficulties and above all to restore and maintain confidence. Our people owe it not only to themselves and in their own interest, but they can, by such an example of stability and purpose give hope and confidence in our own country and to the rest of the world.

Trust Resources are a Nucleus for Recovery

(*Continued from page* 240)

will concern general business in which field it already is rendering many kinds of service with increasing recognition. Again, its percentage of nomination under wills is rising swiftly. So also is its service in life insurance trusts, in living trusts, in administering benefactions and in other fields. I see no reason to doubt a continuance of the upward trend but this thought is sobering as well as gratifying. It implies a proportionate responsibility and that responsibility is one of leadership.

An Opportunity

HERE, after all, is the thought which most concerns trust men at the present moment. The world, confronted by great difficulties of an economic character, is looking eagerly for leadership and the wide ramifications of trust service, together with the intimacy of its relations and the prestige of its record give it a particular opportunity in this respect.

It seems to me that it should be, first of all, a stabilizing influence with the general public. This is a time when the minds of many are bewildered. There is a great output of nostrums for economic ills. Some of these are urged with much plausibility and the person who is untrained in financial matters finds them hard to evaluate. The present period bears some resemblance to that of the free silver heresy in 1896. Just as clear-headed leaders at that time kept the public from being swept into financial error, so today is there need for keeping it aligned with principles of soundness. Trust officers are chosen for financial judgment and mental balance. If they can stabilize the minds as well as conserve the resources of their army of clients the effect will be great in the aggregate. It will provide a solid nucleus for building a new prosperity.

Furthermore, well qualified trust officials are conservers of human material as well as of financial resources. This fact is not always recognized, indeed it often is practiced unconsciously, but men and means are so interwoven in trust objectives that neither can be considered by themselves and, of course, the former must always have the first consideration. This means that there may arise conditions when trusts should be deliberately limited in their application. Their effect should be that of conserving not of hampering and human capacity is ever the largest resource of

the nation. The wise trust official will not fail to humanize his function by keeping in mind the real welfare of the trust beneficiaries, their development as well as their safeguarding.

Finally, the business in its entirety, as well as in its detail, has an aspect that is profoundly significant. At a time when depression, shrinkage and distrust have lain like a pall over the face of economic affairs, trust service has shown a growth that would be calculated to attract attention even in a period of prosperity. This is less a matter of successful salesmanship than of public need. It represents an obvious desire on the part of multitudes for soundness, saneness and efficiency—for a service which has proved its title to trust.

State Secretaries Section

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ful bank practices, for the purposes of distribution to all secretaries.

Haynes McFadden of Georgia spoke on lessons to be derived from the depression. He said that a bank-to-bank canvas was being made in Georgia in order to stimulate action on the reduction of interest rates and the extension of profitable practices. He expressed the hope that by the first of next year Georgia banks would be on a 3 per cent interest basis.

How to Convene

ARMITT H. COATE of New Jersey discussed the elements which enter into the holding of a convention. The convention idea, he said, was quite new and was a product of modern business conditions. Seventy-five or 100 years ago there were political meetings and county fairs but very few, if any, conventions of business men. He held that the spirit of pulling together, which prevailed in the business world at present, had made conventions indispensable.

A report for the insurance committee was presented by M. A. Graettinger of Illinois. He expressed the belief that the casualty companies should restore the credit of a discount from the regular premium on burglary and robbery insurance for the installation of approved alarm systems."

Andrew Miller of California discussed the secretary's part in a bank management campaign. He described the work being done in California through the agency of a committee on banking practices. One of the major projects of the California Bankers Association this year, he said, was to bring to the attention of banks throughout the state, the need for uniformity in analyzing accounts and installing a uniform, graduated charge.

Wall G. Coapman reported on the efforts made during the past year to encourage cooperation between the State Secretaries Section and the American Institute of Banking. He said that the Institute had been accorded a place on the programs of several state associations and that the secretaries and educational committees of many state associations had been active in organizing study classes. He urged that every state association adopt the Institute and its program as one of its special features "not only in the interests of banking education, but for the furtherance of better management now and in years to come."

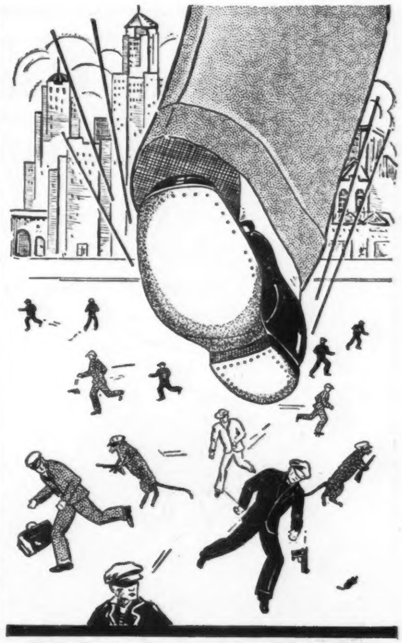
County Organizations

IN the absence of Frank Warner of Iowa, C. W. Beerbower of Virginia reported on the work on county organizations. A questionnaire on the subject was sent to all state secretaries. Thirty-eight replied and of that number twenty-five said that they had a definite plan of county organization and were experiencing good results. Twenty-two reported that banks were showing increasing interest in the work from year to year.

A report on the work of credit bureaus and clearinghouse associations was made by W. F. Keyser of Missouri. A list of seven questions on the subject was sent to all states and the replies furnished facts which will prove useful in extending such activities during the coming year.

The bank management committee's report was presented by J. W. Brislawn of Washington state. The purpose of the committee was to coordinate the work of the Bank Management Commission of the American Bankers Association with that of the various state associations. By means of a questionnaire a considerable amount of data was assembled showing the extent of management activities and the amount of interest being displayed in them by banks.

Paul P. Brown of North Carolina reported, on behalf of the committee on public education, that thirty-three state associations, out of thirty-nine replying to a questionnaire, had committees in charge of such work. Twenty-two of this number have



National Bank Division

(*Continued from page 223*)

ton, Pa., was elected President of the Division for the coming year. J. R. Cain, Jr., vice-president of Omaha National Bank, Omaha, Neb., was elected Vice-President. The following were elected to serve three years as members of the executive committee: for the Third Federal Reserve District, Charles F. Zimmerman, president of the First National Bank, Huntingdon, Pa.; for the Fourth Federal Reserve District, B. Q. Huntington, vice-president of the Huntington National Bank, Columbus, Ohio; for the Sixth Federal Reserve District, W. C. Bowman, president of the First National Bank, Montgomery, Ala.; for the Tenth Federal Reserve District, George H. Hamilton, president of the Fourth National Bank, Wichita, Kan. To fill an unexpired term of two years for the Seventh Federal Reserve District, the Division elected John F. Hagey, vice-president of the First National Bank, Chicago, Ill.

Banking Strength

COMPLETE confidence in the ability of the banking structure to carry itself through any possible difficulties was the thought that dominated the Division's deliberations, and the cooperation of all banks to that end was urged. Banking practices, judged in the light of changed conditions in business and industry—conditions which are setting different values and developing new methods—received considerable attention in the discussions of the executive committee.

The character of the bond market and the supreme importance of maintaining ample secondary reserves for the sake of liquidity received special emphasis. Other subjects taken up constructively by the executive committee included efforts directed toward a moderate liberalization of national banking laws and various steps designed to broaden the service which national banks render the businesses of their communities. It was further decided to continue the study begun last year of the laws under which banks operate in various states with a view toward improving the position of national banks, in certain instances, in their competition with institutions operating under state charters.

American Institute of Banking men as chairmen of their committees on public education.

George Susens of Minnesota was not present, but forwarded his report for the committee on taxation. It stated that "apparently the amended Goodwin bill is satisfactory to most states." In view of the fact that most states are working to adjust their taxing systems the report urges state associations to be on the alert and make sure that banks receive fair treatment.

The report of Robert E. Wait, secretary and treasurer of the Section, pointed out that the secretaries, "in addition to their own work, have carried the helpful propaganda of the American Bankers Association into their own fields and have translated the findings of the Association Convention and its Divisions and Sections into practical methods of improving the banking situation in each state.

Association Activities

(Continued from page 259)

note topic for discussion. "Some Essentials of Sound Management" is the general subject for the first session, "Loan Analysis" for the second, "New Sources of Income and How Obtained" for the third and "Cooperation, an Economic Necessity," for the fourth.

Among the subjects tentatively on the program for detailed study are the following: operating costs, analyses, reserves, depreciation, conservation of earnings, duties of directors, collateral loans and commercial paper, real estate loans, agricultural paper, loans to officers, directors and corporations in which they are interested, bonds, secondary reserves, compensating balances, service charges, float, interest, clearinghouses, credit bureaus, relations with public, and related problems. Following the presentation of each subject will be a period for discussion and a period of general discussion will close each session.

Convention Calendar

Date	State Association	Place
1931		
Oct. 22-23	Nebraska	Lincoln
Nov. 6-7	Arizona	Nogales
1932		
May 10-12	Texas	Austin
May 19-20	Indiana	Indianapolis
May 23-25	Illinois	Springfield
June 1-3	South Dakota	Watertown

American Bankers Association Meetings

1932		
June 6-10	A. I. B. Convention,	Los Angeles, Cal.

Regional Conferences

1931		
Oct. 21-23	Pacific Coast and Rocky Mt. States Trust,	San Francisco, Cal.
Nov. 5-6	Southern Bank Management Conference,	Nashville, Tenn.
1932		
Feb. 16-18	Thirteenth Mid-Winter Trust,	New York, N. Y.

The Trust Division

(Continued from page 234)

was not a business which was sold to the public for profit-making purposes but rather one that grew up naturally and inevitably to fill a definite need. The address appears in full in the JOURNAL.

The Division elected Thomas C. Hennings, vice-president, Mercantile-Commerce Bank & Trust Company, St. Louis, as President for the coming year. R. M. Sims, vice-president, American Trust Company, San Francisco, Cal., was chosen Vice-President. Five members of the executive committee were selected as follows: Merrel P. Callaway, vice-president of the Guaranty Trust Company, New York; Arthur H. Evans, vice-president, Continental Illinois Bank & Trust Company, Chicago; James E. Goodrich, vice-president of the Commerce Trust Company, Kansas City, Mo.; Raymond H. Trott, vice-president, Rhode Island Hospital Trust Company, Providence, R. I.; and Richard G. Stockton, vice-president of the Wachovia Bank & Trust Company, Winston-Salem, N. C.

Judge Hennings, in accepting the leadership of the Trust Division, said:

"I feel that there are two great problems for consideration during the coming year, which must be met and to some degree solved. One is that of the investment of trust funds.

"Many of us will find ample work during the next year or two in handling the funds which have been entrusted to our care. We shall be obliged to review our securities with great care from time to time; and the manner of investment and review is a subject to which the new administration will devote considerable time.

"Another is the old problem which

we always have with us—the disagreement between two sets of lawyers, one set representing trust companies and the other set who have not been fortunate enough to represent trust companies. We hope to be able to solve this problem but I can assure you that it will not be solved next year nor in any other year unless it be with honor to the great trust organizations of the United States."

Changes Asked by National Banks

(Continued from page 226)

resolution at Cleveland, is well known and if this attitude finds final enactment into legislation, the national banks will undoubtedly find themselves in an improved, competitive position. The recent decision of the Comptroller of the Currency to modify requirements in charging off bond depreciation will find favor with the banks for much of the decline in the price of high class bonds is due to existing unsettlement rather than impairment of the real value of the securities themselves. This action is but one of many steps taken by the Department to cooperate with the national banks, and is a recognition of the many problems facing them at this time.

Thus, it will be seen that while our banks have been passing through a period that has brought problems both pressing and trying, much has been accomplished to better enable them to meet those problems.

I am confident that banking today is sound; it has the ability to work out its problems and is doing so in a satisfactory manner. More than ever before, bankers are looked to for counsel and fearless leadership, and I am sure we shall not be found wanting.

Agriculture's Chronic Surplus

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govern the economic world. The joy ride did not seem so bad when everything was floating gaily by on the high tide of inflation; now we find the brown taste of the morning after. The headache period always seems longer than the joyous period of exhilaration.

Acting as individuals each one has to meet the situation by adjustment to the new conditions which obtain. Many do not like the medicine, but it has to be swallowed. The great majority will pull through by individual effort and initiative. Some will fall by the wayside. Some will cry for help, looking to Government as a child to its parent in time of trouble. These will make the most noise while the big majority are digging their way through by adapting themselves to meet the changed conditions.

Just now the thing that is most needed is a different attitude of mind. We have heard so long the wail of despair, that everything was going to the dogs, that many people feel we are never to get back again to a normal equilibrium in human relations. Sometimes, it reminds me of those good old souls one finds in every community, who so enjoy bad health that they can never cease talking about it.

We fear very much the inroads of the reds, but if we could avoid, for six months, the miasma of the blues, which has deepened into ultramarine and indigo, the horizon once more might show indication of the rose-pink of dawn that presages the sweep of aurora across the heavens. The sun has always risen, lo! these many million years. Is it conceivable that it will never rise again?

So when we offer our humble prayer—Give us this day our daily bread, let us help the Lord that He does not give us too much. A few years from now we shall have forgotten our present misery. Our cart will be out of the Slough of Despond, and we hope, back again on the concrete.

U. S. Investments Abroad

COMPUTATIONS by Paul D. Dickens of the Bureau of Foreign and Domestic Commerce indicate that American investments abroad stood at between $14,900,000,000 and $15,400,000,000 at the end of 1930. Thirty years ago the total was approximately $500,000,000 and just prior to the war the volume was in the neighborhood of $2,000,000,000, indicating an increase since 1913 of more than 700 per cent.

Condition of Business

(*Continued from page* 276)

the down-side. Whenever a "corner" has been secured in a particular issue and the brokers who sold the stock short are unable to make delivery, the exchange authorities are quick to suspend trading in that particular issue. This undoubtedly is in the public interest, and incidentally rescues the brokerage firms from the embarrassing position into which they had gotten themselves by selling something which they did not own.

At the present time, the situation is reversed, and the general investing public is at the mercy of organized groups which flood the market with orders to sell stock and bonds which they do not own but expect to be able to buy in at a cheaper price to close out their contracts. As an abstract theory, it may be perfectly proper for traders to prevent prices going too high, but there hardly seems any danger of that at the present time.

Banking Developments

THERE have been a number of features in the banking situation during the past month.

When England went off the gold standard, a number of the central banks in other countries, which had large sterling balances in London as part of their reserves, became justly concerned as to the availability and possible depreciation of such assets, and began a movement to build up their gold reserves. Several hundred million dollars' worth of foreign exchange balances that had been kept in the American market in the form of deposits in commercial banks or the Federal reserve banks, in Government securities and bankers' acceptances, was converted into gold. Some of this gold has already been exported, the remainder being held here under "earmark" for their account. At the same time other countries, notably Argentine, Canada and Japan, whose exchanges were depreciated in terms of the American dollar, have sent gold here to build up their balances and to meet payments becoming due.

Currency in circulation has continued to mount rapidly since the first of April and is now more than $500,000,000, or 10 per cent larger than at the same date last year. Banking troubles in various parts of the country, and the circulation of rumors about the solvency of almost every bank, have caused a seepage of deposits out of the banks, and an increase in the currency carried by banks in their own vaults, as well as some hoarding by the public.

To meet the sharp expansion in demand for gold and for currency, the resources of the Federal Reserve System have been called into play, and during the past two months the total of bills and securities carried by the reserve banks has increased by about $400,000,000.

Liquidation of bank loans continues, the loans secured by stocks and bonds declining to the lowest in several years and the "all other" loans showing a declining tendency, although this was offset during the past month by the inclusion of the $200,000,000 credit granted by a group of about 110 American banks and bankers to the British Treasury in connection with its unsuccessful effort to hold up the price of sterling exchange.

Money rates have shown practically no change and continue around the minimum levels, with a somewhat firmer undertone.

Offerings of new securities have been at low ebb, and the total new capital issues publicly offered during the first nine months of 1931, according to the *Commercial & Financial Chronicle*, with September partly estimated, amounted to approximately $3,600,000,000, which compares with $6,563,000,000 in the corresponding period of 1930 and is the lowest since 1921.

Dividend reduction and omissions continue to give a depressing effect to business sentiment although it appears likely that dividends have been fairly well adjusted by this time to the lower level of corporate earnings. In September there were fewer dividends reduced and omitted than occurred in June, the comparable month of the preceding quarter. It is interesting to note that in September there were eight companies that voted a resumption of dividends, whereas in September a year ago there was but one.

Depreciation Charges on National Banks' Bond Accounts

THE announcement made by the Comptroller of the Currency some weeks ago, proclaiming a modified policy which had been in effect for a considerable time with respect to charging-off depreciation in the bond accounts of national banks, was welcomed as a public expression of greater confidence in the future of bonds of the higher grades. It declared a purpose to relieve banks, so far as practicable, from the former rigorous write-off plan which appeared to be a considerable hardship to many of them. Likewise, by his action the Comptroller indicated his belief that despite the lessened quoted values of these grades of bonds their intrinsic worth has not suffered materially, and that they may be expected to again attain higher prices and be paid at maturity.

In a word, his policy, which is the result of exhaustive studies, is no longer to require regular, periodic write-offs on such bonds as are considered to possess inherent values which make them reasonably sound. It gives preferential treatment to issues which are considered by the country's recognized securities analysts as having qualities which should preserve their stability. Bonds embraced in this category are those grouped in the first four classifications of ratings published by Moody, Poor, Fitch, Standard Statistics, Bond & Quotation Service, and other well known statistical organizations, and include issues of the Federal Government, the various states, counties and municipalities, and corporations whose records of earnings and strength are reassuring. The plan is not intended to be retroactive to permit the restoration of such depreciation as already has been charged, but further marking down of values on bonds of these grades is not required.

IN all other respects the earlier policy remains unchanged. All bonds listed in the lower brackets and considered more hazardous are treated in the same manner as before. Accordingly, defaulted issues still are required to be written off completely to their market values at once, and other issues must be charged down at the rate of 25 per cent of the total depreciation found at each half-yearly examination.

This revised policy was decided upon because of the unsatisfactory condition of the bond market which seemed no longer to reflect the true character of certain high grade issues. In the general decline of security prices the quotations of many such bonds were felt to have gone rather far below their real values, and further depreciation tolls on them were looked upon as unnecessarily burdensome. So in a spirit of fairness to the banks, and with a full recognition of a corresponding responsibility to the banking public, the Comptroller of the Currency was prompted to devise this plan which seems to have received the approval of banks and of students of finance.

THIS ruling, the same as all others promulgated by the Comptroller of the Currency, is intended to hold enough elasticity to make its application sound. Its force might be drawn more tightly or even relaxed under certain circumstances. Examiners are instructed to apply it with reason. Conceivably a bank might have a satisfactory bond account under the terms of the new order, and still be required to trim it severely because of less satisfactory conditions in some other department for, after all, the purpose of supervision is to protect the entire institution. On the other hand, a bank doing a conservative and profitable business, and possessing a generous surplus and showing but slight bond depreciation, likely would find little difficulty in making adequate compliance with the rule.

THIS step seems to be the one needed to remove the spectre of direful happenings which might follow the practice of continuing to charge off depreciation on bonds of recognized quality to the point of depleted capital structures. They now may be held at fixed amounts instead of being thrown on the market at sacrifice prices. Thus is allayed measurably the discontent engendered by the unhappy results of some of the efforts made to create secondary reserves through the purchase of bonds. The rationale of the principle of such reserves has not been disproved, but the practices followed in some instances are shown to have been unfortunate. This relief from the effects of subnormal market values therefore should increase faith in the efficacy of sound issues of bonds and encourage their accumulation.

The 57th Annual Convention

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standing leadership. In following him into high office Harry Haas brings a trained banker's experience, a sound thinker's point of view, and I know it will be a great pleasure to be able to cooperate with him. It is not important who the individual is who expresses your ideas of what the bankers should be and do. It is simply important that we should live up to the ideals that have been set for us and to the uses which you demand of us. If we, the bankers of America, can go back to our homes and to our jobs unafraid, confident in the future of our country and in the efficiency and usefulness of our organization, we will have well fulfilled the purposes of this Convention."

Mr. Law, the incoming Second Vice-President, stated that he agreed with Mr. Kent, namely, that there should be a moratorium in politics. "I come from the South," he said, "a region that is pretty solidly Democratic. I sent a telegram to my home town, Houston, expressing the sentiment that the President of the United States had presented a plan which is workable and which if it commands, as it should, the hearty cooperation of all the people, will do much to strengthen the confidence of the people of this country."

Appreciation

CRAIG HAZLEWOOD, vice-president of the First National Bank of Chicago, presented, on behalf of the Association, a silver service, to Mr. Stephenson for his labors as President. "I call your attention to this," said Mr. Hazlewood, "that in all the strife, in all the troubling of minds, in all the casting about for ways out, for remedies, for panaceas, Mr. Stephenson has maintained a calm, level, philosophical mind." Mr. Stephenson thanked the Association, praised its work and concluded:

"I have the greatest confidence that it will not be long until the world returns to normal business and, within the next few years, that the United States will be in a position to go on to greater heights than ever before."

The Executive Council elected P. D. Houston, chairman of the board, American National Bank, Nashville, Tenn., as Treasurer of the Association, succeeding Grant McPherrin, president of the Central National Bank & Trust Co., Des Moines, Iowa.

One of the final acts of the Convention was to approve a motion that the Convention in 1932 be held in Los Angeles.

An important feature of the Atlantic City meeting, while not directly linked with the formal business of the Convention, was the round table conference conducted under the auspices of the Bank Management Commission. The discussions at this meeting centered on the problems of operation, loans and investments, costs, service charges and ways of increasing profits. This was the second management round table, the first having been held during the Convention at Cleveland in 1930.

Entertainment

ATLANTIC CITY furnished facilities for an unusual entertainment program. The wives of delegates were guests on motor trips to nearby resort cities. Other events arranged for the pleasure of the ladies included boat trips, a swimming and diving exhibition and a style show. On Tuesday night delegates and their families attended a special revue and picture performance at one of the local theaters. In connection with the Grand Ball on the following night there was a musical program by the Madrigal Singers.

Currency at High Point

THE amount of currency circulating in the United States has increased by more than $500,000,000 during the past year, reaching a total at the end of August of $5,051,333,592. According to the records of the United States Treasury the present volume of currency in circulation is greater than at any similar season since October, 1920, when the total was almost $5,700,000,000.

The *closer* YOU *look*

The BETTER *We'll like it!*

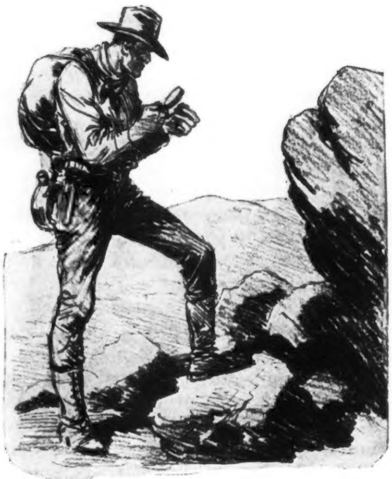
GET out your magnifying glass and ask us to let you look at the JOURNAL'S circulation and its story of advertising value. *The closer you look the better we'll like it.*

We, whose duty it is to get out the JOURNAL each and every month, know how its record has been one of steady progress, especially through the past five or six years.

There was a time when its circulation consisted only of the member banks of the Association. Today it has over 37,000 subscribers, 17,000 of these are banks and over 18,000 are individual bank officers and bank directors.

We have seen the reader interest increase. We have watched the letters from readers grow from an occasional desultory commendation to scores that are sincerely appreciative and enthusiastic.

The JOURNAL never was intended to be a huge success from a dollars and cents standpoint, *but* it is the desire of the members of the American Bankers Association that the JOURNAL be the outstanding magazine in the banking field—*and it is.*



Its reader audience of approximately 100,000 bank officers and bank directors represents probably the most important group reachable through a single publication. These men are actively interested in the leading businesses of over 12,000 communities. As men of healthy incomes they are a mighty important market for quality merchandise and because of their function as Bankers they have a decided influence upon any sales campaign or program.

In 1932 be sure that the businesses in which you are interested include the Banker *in the picture.* A campaign to Bankers and Bank Directors through the pages of this, their own publication, costs only $250 a page on a twelve time contract.

Let us bring you for closer scrutiny the JOURNAL'S story and an analysis of its circulation. *The closer you look the better we'll like it.*

AMERICAN BANKERS Association JOURNAL

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ALDEN B. BAXTER, *Advertising Manager*

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The Dole Leads to Bankruptcy

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treasury. We are faced this year, however, with a situation that is very real.

Those Who Want Work

THERE are some millions of men—possibly only 2,500,000 in addition to these others—who want employment and can not get it. It is our responsibility to protect them, and we must do it in the localities in which they live, and we must all take part in doing it in so far as we can. We must see that they and their families are protected.

I do not believe that there is a banker or a business man in the United States who is not going to do his part. We are willing to do that. If we do that, we shall protect ourselves and protect all of our people, protect our labor from a situation that would otherwise run into disaster.

INDEX TO ADVERTISERS

WHAT DO YOU THINK?

***Being a more or less personal talk between the* EDITOR *and the* READER**

The Swope Plan

THOUGH for years there has been a general condemnation of the practice of having government embark in business, an outstanding characteristic of these times is the desire to put the government more deeply into business.

That tendency would be astonishing at any time, but, in view of the waste and confusion which has attended the most notable governmental incursions into business, new proposals for business betterment that are predicated on Washington suggest a misplaced faith.

Chief among the proposals for business betterment last month was that of Gerard Swope, president of the General Electric Company.

He proposed as a stabilizer of business a system of unemployment insurance, to which both the employer and the employee would contribute. With unemployment insurance, there would be, in the event of unavoidable idleness, a buffer between the employee and want. The proposed plan would make this system universal in its application so that when a man for good and sufficient reasons changed from one company to another, or from one state of the union to another, that man would not forfeit the various benefits that would accrue to him if he had remained in his old position with his old company.

Mr. Swope would have the government compel all industries coming within the scope of his plan to align themselves with trade associations of their class and kind and have these trade associations under some government body administer the unemployment insurance, old age pensions and other benefits that are entailed.

At first blush this plan, even though it went no further than the author's initial proposal, looks like a long march toward Socialism, but without regard to the name by which it shall be called, who supposes that if inaugurated and it became the fashion to lean upon the government instead of relying upon self, that the plan would stop there?

How easy, say in a period of depression, to get an appropriation, like that which the Farm Board is administering, to keep up the payments or even to increase them. England's present crisis is traced back to just that one altruistic mistake. Its dole law has been amended so that the provisions now cover the just and the unjust. And it is entirely possible that getting a big appropriation for the unemployment insurance fund in America would not be a hard task since all the beneficiaries would favor it and since there could be fashioned many fine arguments to prove beyond all doubt that such an appropriation was going to stimulate business as nothing else could.

Another side worthy of serious study is the grasp that such a supervising governmental body as Mr. Swope's plan calls for would give upon business and its operations. Business has complained for a long time of governmental interference. Here, with the plan in the very first stages of its operation would probably be fruitful cause for additional complaint. The cry has been to get government out of business, to pass, or repeal laws which will permit business to proceed on its way unhampered. The operation of this bureau with its many requirements could not be expected to give business greater freedom than it now possesses.

No doubt, the plan would confer benefits upon worthy people, but in the long run it is not inconceivable that more evil than good might flow from it. There is nothing in it that would have a tendency to develop the quality of self-help and self-dependence; there is much in it, however philanthropic and well-intentioned it may be, to suppress self-reliance, to deaden initiative and ambition, to bring up a generation of leaners instead of a generation of men who determined to work out their own affairs.

"The psychology of fear must be removed," said the author of the plan, "and this cannot be done unless they (the wage earners) have reasonable expectation of protection for their families in case of the breadwinner's death, protection for their old age and protection against unemployment. By protection, I do not mean protection that they themselves shall provide."

With any plan that provides for life insurance and disability insurance, there can be nothing but commendation provided the government is left out of the plan, but while fear has often been pointed to as the great scourge of mankind fear may not be an unmitigated evil. Fear has been the motivating force that has sent men and women forward to useful work and to high places in the world. Compare the usefulness of the young man who fears for the future with the usefulness of the young man whose bread and butter is assured. The one is usually a force in the world; the other, all too often, is only a contamination in the world, and of the two the worker is the happier.

When the head of a great industrial concern proposes a plan for the betterment of labor and of society, prudence dictates that every possible consideration shall be given to that plan for any benefits that it may contain, but any plan which would make an impress on the character of the whole nation is worthy of the attention of every thinker in the land lest that change of character may cost the individual and the nation far more than it is worth.